DNB MARKETS

ECONOMIC OUTLOOK

JANUARY 2025

International macroeconomic forecasts

GDP. Percent change from preceding year

Country/region	Weight PPP	2023	2024	2025	2026	2027	2028
World		3.4	3.4	3.3	3.2	3.3	3.3
USA	15.1	2.5	2.8	2.6	2.0	2.0	2.4
Canada	1.4	1.5	1.3	1.5	1.8	2.0	2.0
Brazil	2.4	2.9	3.2	2.0	2.0	2.0	2.5
Eurozone	0.0	0.5	0.7	1.2	1.2	1.2	1.2
UK	2.3	0.1	0.8	1.3	1.5	1.6	1.6
Sweden	0.4	0.0	0.6	2.1	2.3	2.0	2.0
Denmark	0.3	2.5	2.4	2.0	1.8	1.8	1.8
Mainland Norway	0.3	0.6	0.9	1.5	1.8	1.7	1.6
Switzerland	0.5	0.8	1.3	1.4	1.6	1.6	1.6
Russia	3.5	3.6	3.8	2.0	1.5	2.0	2.0
China	18.4	5.3	5.0	4.5	4.0	4.0	4.0
India	7.6	8.2	7.0	6.5	6.5	6.5	6.0
Japan	3.5	1.5	-0.2	1.0	1.0	0.8	0.8
South Korea	1.7	1.4	2.2	2.0	1.8	1.8	1.8
Others	26.8	3.1	3.2	3.5	3.8	4.1	4.1
Advanced economies	41.3	2.0	2.0	2.1	1.8	1.8	2.0
Emerging economies	58.7	4.5	4.3	4.1	4.1	4.2	4.2
Norway's trade partners		0.7	1.0	1.6	1.6	1.5	1.5

Source: LSEG Datastream, DNB Markets

Inflation. Percent change

Country/region	2023	2024	2025	2026	2027	2028
USA	4.1	3.0	3.1	3.6	2.8	2.6
Canada	3.9	2.4	2.5	2.5	2.0	2.0
Brazil	4.6	4.3	4.5	3.8	3.5	3.0
Eurozone	5.5	2.4	2.6	2.6	2.6	2.7
UK	7.4	2.6	2.7	2.9	2.7	2.6
Sweden	6.0	1.9	2.0	2.4	2.5	2.5
Norway	5.5	3.1	2.5	2.7	2.7	2.8
Denmark	3.3	1.4	2.0	2.5	2.7	2.8
Switzerland	2.1	1.1	0.7	1.0	1.5	1.5
Russia	5.9	8.3	7.0	5.0	4.0	4.0
Japan	3.3	2.6	2.3	2.0	2.0	2.2
South Korea	3.6	2.3	2.0	2.0	2.0	2.2
China	0.2	0.4	0.5	0.5	1.0	1.5
India	5.4	4.4	4.5	4.0	4.0	4.0
Industrialized economies	2.6	1.7	1.7	1.9	1.6	1.5

Note: Headline CPI inflation, CPIF for Sweden and HCIP for Eurozone.

Source: LSEG Datastream, DNB Markets

Table of contents

International macroeconomic forecasts ... 2
Summary ... 5
US ... 10
Eurozone ... 14
UK ... 18
Sweden ... 21
China ... 25
Emerging markets ... 29
    India ... 30
Norway ... 32
    Business cycle and labour market ... 32
    Prices and wages ... 35
    Budget policy ... 37
    Monetary policy ... 38
FX markets ... 40
Nordic high yield ... 46
Nordic equities ... 49
Energy markets ... 52
    Oil market ... 52
    European gas market ... 53
Macroeconomic forecasts Norway ... 54
Interest rate and FX forecasts ... 55

This report encompasses data up to 27 January 2025, with the editorial process concluding on the same date.

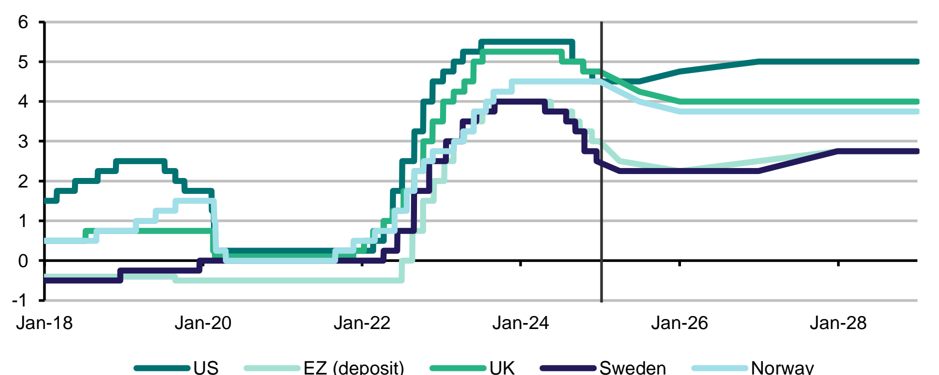
DNB MARKETS

SUMMARY

Policy rate hikes on the horizon

- Despite imminent threats of significant tariff increases from the Trump administration, we see prospects for economic growth around normal levels in the US and Europe over the next four years. Households will contribute significantly to growth, but investments will also pick up.
- The increased geopolitical tensions are contributing to the investment rebound. Defence spending is on the rise. Supply chains are being relocated to reduce the risks of disruption. Policy measures, like subsidies and funding, are increasingly being used to stimulate more self-sufficiency within critical sectors including energy and technology, as well as to boost potential economic growth.
- Labor markets will likely continue to experience shortages. In Europe, the decline in the working-age population will contribute to keeping unemployment low, while President Trump's restrictive immigration policies could give similar effects in the US.
- We expect the downward inflation trend in Europe and the US to come to a halt by 2025, at a level higher than the central banks' 2% target. US consumers will have to pay much of the price for Trump's trade policies, leading to a temporary increase in inflation to around 3.5% in 2026. For the eurozone, the UK, Norway, and Sweden, we estimate a far less dramatic development but still an upward trend. By the end of our forecast period, we estimate that inflation will have stabilized at a level closer to 3% than 2% across the board.
- After cutting policy rates by 1%-point from the peak during the second half of 2024, we expect the Federal Reserve (Fed) to hold rates steady until December 2025. In contrast, both the Bank of England and the ECB are expected to deliver three more cuts by summer, while Sweden's Riksbank—having been ahead of other countries in the rate-cutting cycle—will likely settle for one cut. This will likely give Norges Bank room to carry out its planned three rate cuts this year. After that, we believe the room for manoeuvre will narrow, keeping the Norwegian policy rate at 3.75% for the next three years. We anticipate a new rise in US policy rates next winter, and from December and March 2027, respectively, we foresee both the ECB and Riksbank raising their rate levels somewhat again.
- Our policy rate forecasts suggest that long-term rates could rise significantly through 2025.

Key policy rates – actual and DNB Markets' forecasts (%)



Source: LSEG Datastream, DNB Markets

Macro, Fixed Income & Currencies Research
Kjersti Haugland +47 91 72 37 56
Ulf Andersson +46 733 272 273
Oddmund Berg +47 41 63 81 70
Ingvild Borgen +47 48 11 52 00
Kelly K. Chen +47 91 73 40 10
Eirik Larsen +47 91 19 36 00
Knut A. Magnussen +47 47 60 40 46
Magne Østnor +47 90 74 79 02
Kyrre Aamdal +47 90 66 11 12

Credit Research
Ole André Kjennerud +47 47 75 74 82

Equities Research
Paul Harper +47 90 29 55 87
Morten Jensen +47 91 58 03 26

Energy Markets Research
Helge André Martinsen +47 99 12 49 95
Tobias Ingebrigtsen +47 48 42 58 01

Kjersti Haugland
Chief Economist
+47 91 72 37 56
Kjersti.Haugland@dnb.no

2025-2028: Toward more normal GDP growth rates, continued tight labour markets

There are prospects for a more normal economic growth over the next four years. We expect GDP growth in Europe to pick up, while it slows somewhat in the US. The main contributions to growth will likely come from private consumption and investments.

Households' purchasing power is rebounding solidly after a sharp downturn following the inflation and interest rate hikes in the wake of the pandemic. This provides support for decent growth in private consumption, and a rebound for housing investments.

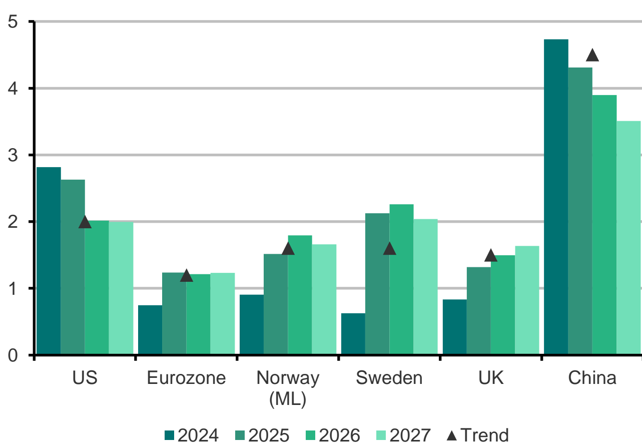
Investment prospects are being boosted by a tense geopolitical environment

Investment prospects are being boosted by a tense geopolitical environment. Supply chains are being relocated to reduce the risks of disruption. The need to increase self-defence capabilities is seen as increasingly urgent. Europe is under intense pressure from President Trump, who threatens to withdraw US Nato support unless defence spending is raised from the current level of around 2% to 5%. Policy measures, like subsidies and funding, are increasingly being used to stimulate more self-sufficiency within critical sectors including energy and technology, as well as to boost potential economic growth.

The rivalry between the US and China has intensified further due to Chinese companies' contributions to Russia's warfare in Ukraine. After years of significant and costly political measures, China has succeeded in efforts to take the lead in most areas considered critical for national interests. The state-driven innovation push has become even more important to Chinese authorities as the housing market falters and households hold back on consumption. US authorities have stepped up their technological efforts significantly in recent years to regain leadership from China. Subsidies, grants, and regulations are being used on a large scale to promote domestic advancements (and hinder corresponding Chinese advancements).

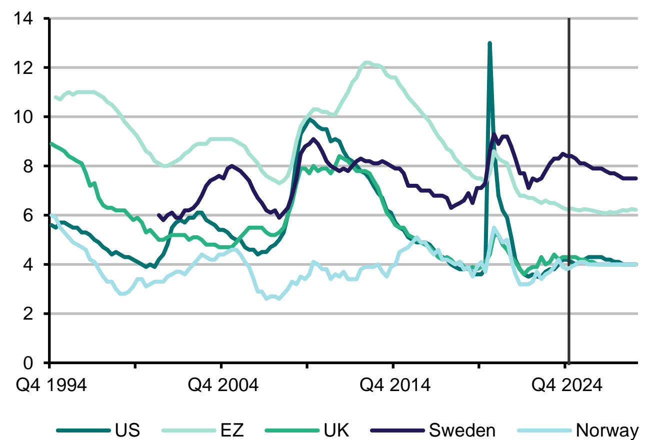
Russia's invasion of Ukraine, increasingly evident signs of hybrid warfare (e.g., sabotage of undersea cables in Europe), and Trump's threats of weakened military support have heightened situational awareness among European politicians. After decades of low productivity growth and weakened competitiveness, Germany has also recognized the urgent need for political measures to enhance the potential of its economy and narrow the gap with superpowers in the East and West. As the largest economy in the eurozone, with low public debt and a large current account surplus, Germany must play a key role in such a shift. We believe German politicians will be ready to introduce measures following the February 23 election.

GDP growth – projections (% YOY)



Source: LSEG Datastream, DNB Markets

Unemployment – actual and projections (%)



Source: LSEG Datastream, DNB Markets

We estimate that labour markets will remain tight, Sweden being an exception. In Europe, the decline in the working-age population will contribute to keeping unemployment low, while President Trump's restrictive immigration policies could give similar effects in the US.

Inflation to rise in the US next year, and to stabilise close to 3% across the board

We believe that underlying cost growth is on the rise in Europe and the US. Thus, we do not expect central banks to succeed in bringing inflation all the way down to 2%.

Inflation pressures will be held up by rising trade barriers, a shift in investment priorities and persistently tight labour markets

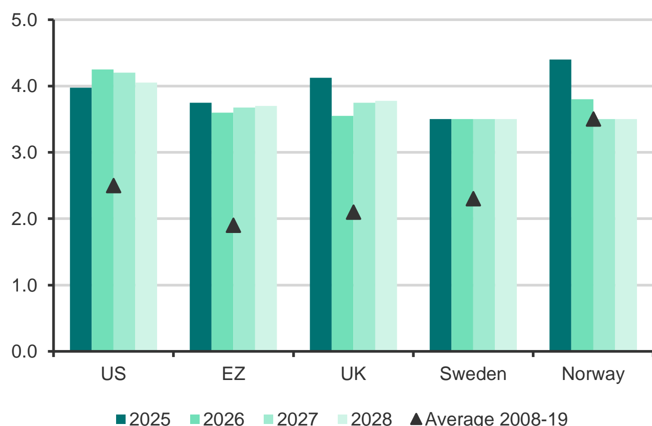
Rising cost pressure is partly linked to the sharply increasing trade barriers over the past decade, which are likely to gain further momentum with the likely implementation of a large parts of Donald Trump's proposed tariffs, and corresponding countermeasures from countries affected by them. Experience shows that increased trade barriers do not stop trade altogether. Rather trade is rerouted through more expensive intermediaries.

Moreover, investments motivated by national security considerations and climate goals are likely to crowd out some of the more traditional investments that typically aim for efficiency gains. The shift in investment priorities is likely to lift cost pressures. Additionally, there will be pressure on many raw material and input prices as multiple countries aim to invest in the same categories of technology and equipment simultaneously.

With persistently tight labour markets, we also expect the decline in wage growth to be limited. This will particularly impact services inflation, service price growth, which is estimated to stabilize at a higher level than observed in recent decades.

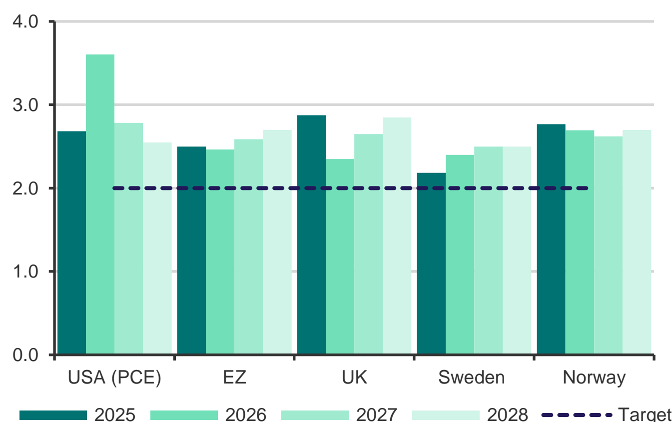
We expect the downward inflation trend in Europe and the US to come to a halt by 2025, at a level higher than the central banks' 2% target. US consumers will have to pay much of the price for Trump's trade policies, leading to a temporary increase in core inflation to around 3.5% in 2026. For the eurozone, the UK, Norway, and Sweden, we estimate a far less dramatic development but still an upward trend. By the end of our forecast period, we estimate that inflation will have stabilized at a level closer to 3% than 2% across the board.

Wages – projections (% YOY)



Source: LSEG Datastream, DNB Markets

Core inflation – projections (% YOY)



Source: LSEG Datastream, DNB Markets

Norway: Economy supported by oil revenues and high wage settlements

The Norwegian economy regained momentum in the second half of 2024 after a period of stagnation. A marked upswing in petroleum investments, combined with substantial stimuli from public budgets, has in recent years helped neutralize the negative effects of several years of declining housing construction and a downturn in retail trade.

Mainland Norway GDP growth is likely to pick up, driven by strengthened household demand and continued expansive fiscal policy

In an election year with a Government Pension Fund valued at nearly NOK20,000bn, there is little indication of fiscal restraint from politicians. We expect continued expansive fiscal policy, not least lifted by higher defence spending. However, the momentum from petroleum investments will diminish, and net exports is unlikely to provide support to the mainland economy. Household demand is expected to strengthen. With continued low unemployment and high profitability in the export sector, partly due to a persistently weak NOK, by historical standards, another year of solid real wage growth appears likely. Along with lower interest expenses this points to solid growth in households' purchasing power, laying the foundation for improved consumption growth and a rebound in housing investments.

Overall, we expect mainland GDP growth to pick up to 1.5% YOY in 2025 and stabilise slightly above this level over the following three years. We consider this to be close to potential growth for the Norwegian economy and expect unemployment to remain low.

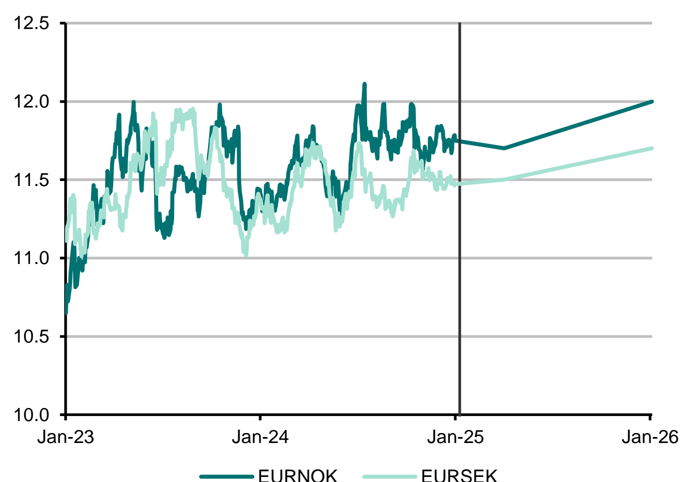
US and European rate hikes on the horizon, while Norges Bank cancels 2026 cuts

After cutting policy rates by 1%-point from the peak during the second half of 2024, we expect the Federal Reserve (Fed) to hold rates steady until December 2025. In contrast, both the Bank of England and the ECB are expected to deliver three more cuts by summer, while Sweden's Riksbank—having been ahead of other countries in the rate-cutting cycle—will likely settle for one cut. We believe this will create enough room for Norges Bank to proceed with its planned three rate cuts this year, though there is a clear risk that the cuts may be limited to two.

Federal Reserve will likely hike rates again from December 2025, the ECB and the Riksbank is expected to follow the move upwards in December 2026 and March 2027, respectively

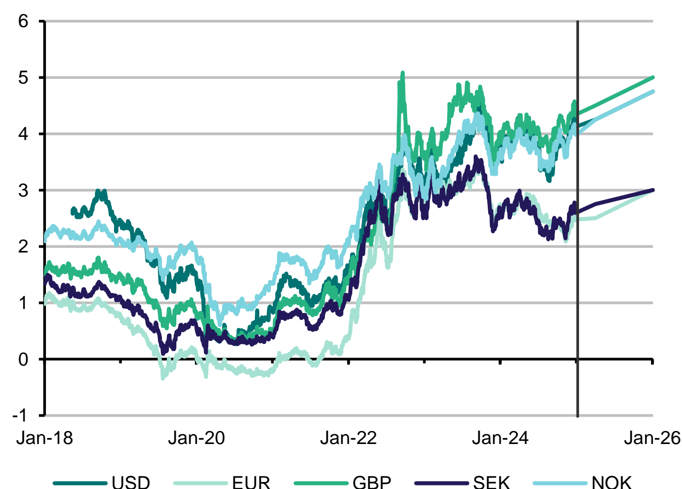
After that, we believe the room for manoeuvre will narrow, keeping the Norwegian policy rate at 3.75% for the next three years. We anticipate a new rise in US policy rates next winter, driven by rising inflation coupled with persistently low unemployment. The following winter, we foresee both the ECB and Riksbank raising their rate levels somewhat again, responding to inflation stabilising closer to 3% than 2%. We believe that Norges Bank, which began its rate-cutting process later than others, is likely to consider it sufficient to keep the policy rate at a restrictive level rather than joining the tightening trend.

EURNOK and EURSEK



Source: LSEG Datastream, DNB Markets

10-year swap rates – actual and projections (%)



Source: LSEG Datastream, DNB Markets

We believe that current interest rate levels may be less restrictive than central banks estimate. The normal level for interest rates, both domestically and abroad, has likely increased due to the structural trends discussed earlier. In a recent speech, ECB's Isabel Schnabel highlighted that the IMF estimates global investments as a share of GDP to rise to their highest levels since the 1980s in the coming years. This will drive increased demand for capital, pushing the cost of money higher. Additionally, the accelerating reduction in the share of the foreign official holdings of US Treasuries may signal that geopolitical fragmentation is limiting access to capital. If so, this could also contribute to pushing the normal real interest rate higher.

The normal level for interest rates is likely higher than before

We estimate that both US and Norwegian 10-year swap rates will rise to 4.75% within the next year, while equivalent EUR and SEK rates are expected to climb toward 3.00%

If inflation remains stubborn, as we expect, this could provide an additional boost to the normal nominal interest rate. We estimate that both US and Norwegian 10-year swap rates will rise to 4.75% within the next year, while equivalent EUR and SEK rates are expected to climb toward 3.00%. The dollar has demonstrated strength in recent years, and we believe it could flex its muscles even further in the coming months. EURUSD could dip toward parity this spring as many of Trump's announced tariffs are implemented. However, over a 12-month horizon, we expect the euro to make a slight comeback, with EURUSD rising to 1.06. The Norwegian and

We expect the SEK and the NOK to depreciate somewhat in the year to come, while the EUR could stage a slight comeback relative to the dollar on a 12-month horizon

Swedish krona will likely weaken further. Over the next 12 months, we expect EURNOK to reach 12 and EURSEK 11,70, aligning well with the level we consider the new normal.

Forecasts Are Uncertain: Here Are Some Risk Factors We Have Discussed

Among the many known and unknown factors that could lead to different developments in the economy, inflation, interest rates, and currencies, we highlight the following:

- **Trump's tariff plans were negotiation Tactics:** If Donald Trump's campaign promises on tariff hikes turn out to be merely a negotiation tactic, and his tactic succeeds, there will be less reason to expect a spike in US inflation. In such a scenario, the prospects for higher interest rates on the horizon would weaken, although still not ruled out.
- **Russia reopens gas supplies to Europe:** It cannot be ruled out that Russia might resume gas exports to Europe, for example, in the aftermath of a potential ceasefire or peace agreement with Ukraine. If this were to happen, it would provide a significant boost to European industry, which is currently struggling with higher energy prices compared to its competitors in the East and West.
- **Europe's capacity and willingness for transformation disappoints:** We have assumed that investments in the eurozone will increase significantly in the coming years, partly because German politicians now see the need for action as outweighing the desire to maintain self-imposed fiscal discipline. If we are wrong, and Germany and the eurozone remain paralyzed—for example, due to the high support for far-left and far-right parties at the expense of traditional parties—economic growth could be much weaker than we estimate in this report. This could argue for lower inflation and interest rates than projected.
- **Financial turmoil related to public finances:** Public debt levels are worryingly high, both in the US and in several European countries. With prospects of increased government spending in the years ahead, the risk of mistrust in countries' ability to service their debt is rising. This could lead to higher risk premiums, triggering negative spirals and instability in financial markets. In Europe, excessive fiscal spending in heavily indebted countries or a lack of growth-stimulating measures could spark such instability. For eurozone countries, these events might rekindle uncertainty about the future of the monetary union. In the US, a scenario where President Trump intervenes in Federal Reserve decisions—for instance, by appointing loyal supporters to the FOMC—could likely trigger financial instability with global repercussions. Precisely because the consequences of such a scenario would likely be severe, we consider it unlikely.
- **Central banks take stronger action against inflation with larger rate hikes:** We believe that the recognition of structural trends that are challenging to combat will lead central banks to tolerate moderately elevated inflation. Thus, we anticipate a rather moderate rise in policy rates over the next year. Over time, inflation targets could even by adjusted slightly upward. However, we cannot rule out the possibility that central banks adopt a different approach, raising rates more aggressively to achieve their 2% targets. This scenario would result in weaker economic growth, lower inflation, and higher unemployment than we currently project.
- **Inflation could be much higher or lower than estimated:** We have assumed that China's excess capacity will largely be directed to emerging economies. This implies that deflationary pressures on Europe will be more indirect, transmitted through weaker demand from these markets. If this assumption proves incorrect, inflation could be significantly lower than our current estimates. Furthermore, we lack strong evidence to predict the magnitude or timing of the inflationary effects of the structural trends discussed in our report. We consider the risks to be balanced: underlying cost growth—and therefore interest rates over a 3-4 year horizon—could turn out to be either higher or lower than projected.
- **New disruptions in global trade:** The most significant known risk is a conflict in the Taiwan Strait, which would trigger vast sanctions from the West. Given China's continued dominant role in global trade, disruptions would be substantial, leading to a pronounced rise in inflation

DNB MARKETS

US

A tariff shock will likely lift inflation

The economy is expected to continue growing strongly in the short term, with a gradual slowdown toward trend growth beginning in the second half of 2025. The unemployment rate is likely to remain low, preventing wage growth from declining significantly. While inflation may ease slightly in the near term, it is expected to rise again due to the impact of higher tariffs. After almost a year of unchanged policy rates, we expect the Federal Reserve to hike again next winter.

Economic growth has surprised to the upside

In our previous report, we projected GDP to slow during the second half of last year. This prediction proved incorrect, as the economy continued to grow at an annualized rate of approximately 3% in Q3 and likely maintained this pace in Q4. Strong private consumption, fuelled by robust growth in real disposable income, played a significant role. Real labour income increased by nearly 3% YOY in 2024, with the savings rate remaining stable. Despite a slowdown in employment growth during the autumn, labour income has continued to increase steadily. This suggests a positive feedback loop between consumption, labour income, and employment. Barring any significant negative shocks, this trajectory is expected to persist, with similar growth at the start of 2025.

President Donald Trump's policy changes will be important

Higher tariffs and stricter immigration will lift inflation

We foresee three major policy changes under President Trump that will affect the economic outlook. Firstly, we expect tariffs to increase. The exact composition of these tariffs is difficult to determine, but it seems likely that Mexico and Canada could face 25% tariffs this winter. We also believe it is highly probable that a large tariff (e.g. 60%, as indicated during the election campaign) will be imposed on Chinese goods. Additionally, we see a high possibility that a universal tariff will be introduced, potentially with a lower rate for Europe.

US forecasts – percentage change from previous year

	2024	2025	2026	2027	2028
Private consumption	2.7	2.9	1.9	1.9	2.3
Public consumption	3.3	2.3	1.6	1.5	1.5
Residential investments	4.1	0.0	1.4	3.6	4.6
Business investments	3.8	2.0	2.9	3.6	4.6
Exports	3.2	2.3	2.0	2.8	3.9
Imports	5.2	2.2	1.7	3.6	4.6
GDP	2.8	2.6	2.0	2.0	2.4
Unemployment (level, %)	4.1	4.1	4.3	4.2	4.0
Headline (PCE) inflation	2.6	2.6	3.4	2.8	2.6
Core (PCE) inflation	2.8	2.7	3.6	2.8	2.6
Wages	4.0	4.0	4.3	4.2	4.1

Source: LSEG Datastream, DNB Markets

Knut A. Magnussen
knut.magnussen@dnb.no
+47 47 60 40 46

Trump's previous administration maintained lower levels of immigration compared to President Biden’s tenure. He has signalled strong restrictions on immigration inflows and large-scale deportations of undocumented immigrants. Model-based calculations from the Peterson Institute suggest that such deportations could significantly slow economic activity while raising inflation. However, we are sceptical about the implementation of such large-scale measures. We estimate that actual deportations may be limited to a few million, while the inflow of new immigrants will likely slow significantly - a trend that has already begun.

Trump has proposed retaining the 2018 tax cuts and introducing new reductions for tips, overtime earnings, and Social Security benefits. With Republicans holding a majority in both the House and Senate, it seems likely that these tax changes will be implemented. The positive GDP effects are expected to materialize in 2026. The flip side of the coin is that the added fiscal stimulus will increase public debt further and drive up net interest payments, which have already risen significantly.

Inflation to rise later this year

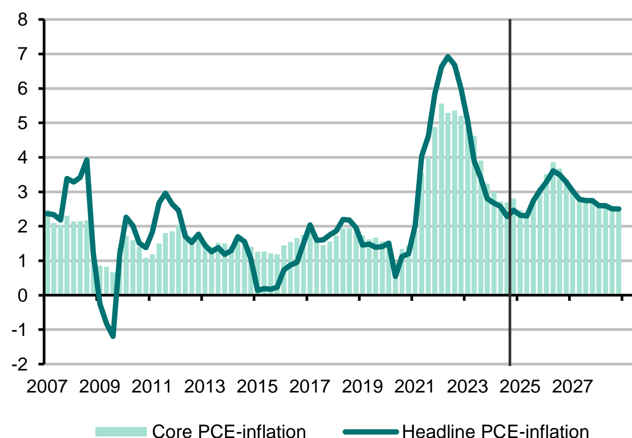
Inflation fell from its mid-2022 peak of 9.1% YOY to a low of 2.4% in September last year, before rising again to 2.9% YOY by year-end. Core PCE inflation, closely monitored by the Federal Reserve, has remained stable at around 2.8% YOY over the past year. Persistent cost pressures appear to be preventing inflation from returning to the 2% target.

Short term, inflation may ease slightly due to base effects, as monthly inflation data in early 2024 surprised to the upside. Currently, the overall inflation picture appears relatively muted. Rent inflation in CPI has declined, with monthly increases around 0.3%, bringing the annual rate down to 4.3% YOY. However, the "super core" index - core services excluding rents - remains high, at 4.0% YOY for CPI and 3.3% YOY for PCE. Over the past six months, monthly changes for PCE have averaged 0.24, which is higher than the level that corresponds with inflation stabilising at 2%.

Inflation to exceed the target in the entire forecast period

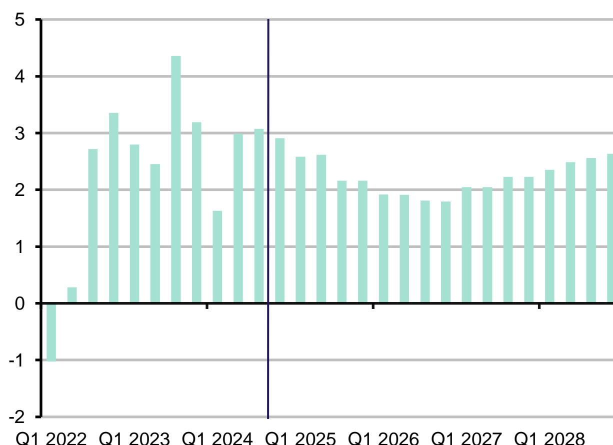
We expect core and headline PCE inflation to decline slightly during the first half of 2025 before rising again in the second half due to higher tariffs. Our projections suggest inflation could peak at close to 4% YOY by mid-2026. While these estimates are uncertain, they align with a range of forecasts from a recent FT-Booth survey, which assessed the inflationary effects of higher tariffs. The tariff effects on inflation will fade over time, but we believe that inflation is likely to remain above the target through 2027–2028.

US: Inflation, % YOY



Source: LSEG Datastream, BEA, DNB Markets

US: GDP, % QOQ (ann.)



Source: LSEG Datastream, BLS, DNB Markets

Consumer demand to remain the main growth driver

We expect private consumer demand to continue growing solidly during the first half of this year. Although still somewhat below its pre-Covid average, recent revisions show that the

savings rate is higher than previously estimated, reducing the risk of a sudden rise in savings that could negatively impact economic growth. A rise in inflation and a slight increase in the savings rate is expected to curb personal spending growth somewhat in the second half of 2025 and in 2026. As inflation moderates in 2027–2028 we expect to see a rebound in household demand.

…assisted by government consumption…

Expansionary fiscal policies have boosted the economy over the past two years. Government spending increased by nearly 4% in 2023 and is estimated to have grown by 3.3% YOY in 2024. Looking ahead, we expect growth to decelerate due to the Deficit-Offsetting Government Expenditure (DOGE) initiative, which aims to reduce government spending, and the diminishing impact of subsidies from the Inflation Reduction Act (IRA). As a result, we forecast government demand growth to slow to 2¼% YOY this year and further decline toward 1.5% YOY in subsequent years.

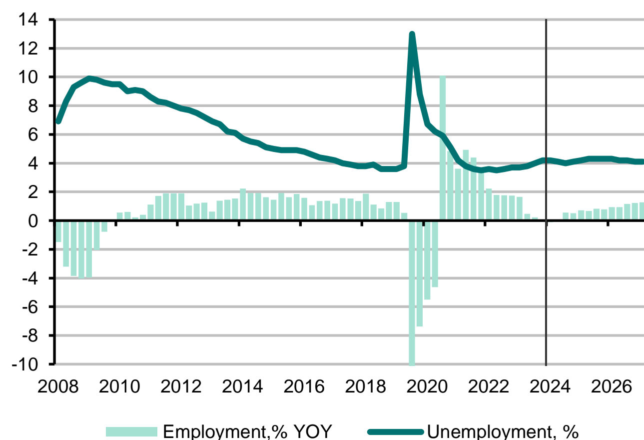
…as well as business and housing investments

Strong domestic demand will keep the labour market tight

Business investments have been strong post-pandemic, bolstered by policies such as the IRA, the CHIPS Act, and the Infrastructure Investment and Jobs Act, which have encouraged both domestic and foreign companies to build new production facilities in the US. From 2022 to 2024, business investments grew by an average of 6.3%. While there are indications that this momentum is slowing, Trump's deregulation policies and proposed tax cuts are likely to support business investments in the coming years.

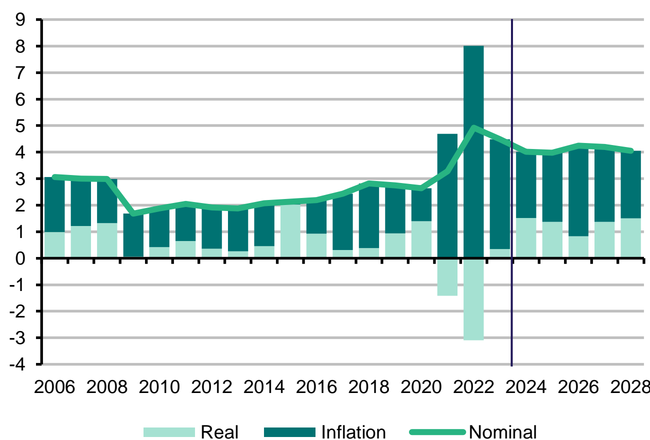
Residential investments, on the other hand, experienced a significant decline in 2022 and early 2023, likely due to sharp increases in interest rates. These investments began to recover in mid-2023, driven by a housing supply shortage. Although the Federal Reserve has reduced the federal funds rate, long-term bond yields have risen recently. High fixed mortgage rates are expected to restrain residential investments this year, with a stronger recovery anticipated in 2026.

US: Labour market



Source: LSEG Datastream, BLS, DNB Markets

US: Wage growth, %



Source: LSEG Datastream, BLS, DNB Markets

The labour market will likely remain tight

The labour market has gradually become less tight over the past couple of years. Vacancies and quit rates have declined, while the unemployment rate has edged up slightly. The easing appears to have significantly dampened wage growth, facilitating a soft landing. Notably, the decline in the quit rate has played a key role in reducing wage growth, and thus for lowering inflation, without a significant rise in unemployment.

In our view, wage growth is unlikely to slow much further. Rather, it could rebound next year, due to higher inflation. This reduction in the labour force growth, due to stricter immigration policies, will likely add upward pressure on wages and prices.

Fed has likely finished cutting. Powell may deliver two hikes before his term ends

The Federal Reserve began easing monetary policy in September last year, cutting the federal funds rate by 50bp. This was followed by two additional 25 bp cuts in November and December, bringing the upper range of the federal funds rate down to 4.50%. The December dot plot suggested only two rate cuts in 2025, with the median core PCE forecast for Q4 2024 revised upward from 2.2% YOY to 2.5% YOY. The upward revision likely reflects expectations of increased tariffs among some Federal Open Market Committee (FOMC) members, in the wake of the US election.

With a prolonged period of elevated inflation fresh in mind, we do not believe the Fed will look through temporarily higher inflation, even if it stems from increased tariffs. Therefore, we forecast two rate hikes: one in December this year and another in March 2026. This would make monetary policy somewhat more contractionary, given a neutral rate which we believe is around 3.5%.

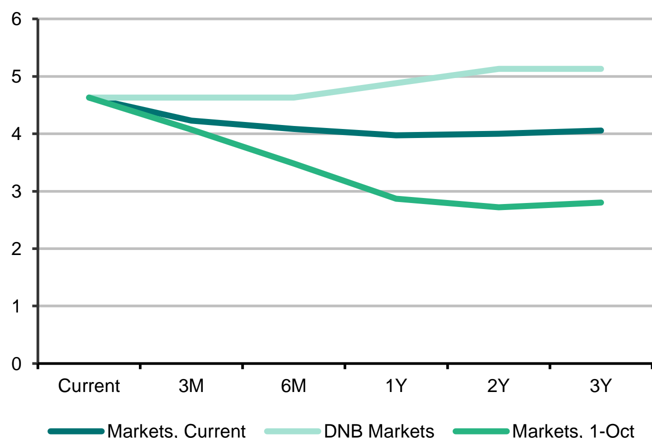
We believe the market is pricing in too low rates

We expect Chair Powell to be replaced when his term ends in May next year. His successor is likely to be cautious about further rate increases, and we do not foresee any additional rate changes in our forecast period. Consequently, monetary policy will remain restrictive in 2026–2028, gradually bringing inflation down.

Long-term rates to rise further as markets reprice Fed expectations

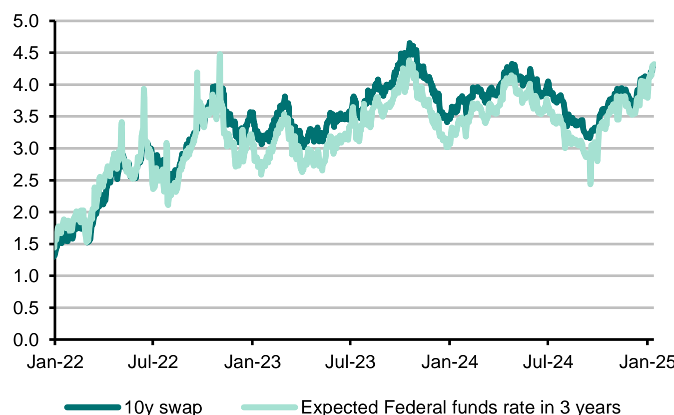
The 10-year US swap rate has historically been influenced by the expected federal funds rate two to three years ahead. In our August report last year, we argued that market pricing reflected excessive Fed cut expectations and forecasted a rise in long-term rates during the autumn. This projection proved accurate, as long rates increased in response to shifting market expectations.

US: Federal funds rate, %



Source: LSEG Datastream, Bloomberg, DNB Markets

US: 10y swap yield and Fed expectations, %



Source: LSEG Datastream, Bloomberg, DNB Markets

At present the 10-year swap is trading around 4.15%. As we expect no more rate cuts and then two 25bp hikes, it seems likely that the swap rate will continue to rise over the coming year. We forecast a rise to 4.25% in three months and a further rise to 4.75% on a 12-month horizon. This would be even higher peak level (4.48%) seen since the inflation shock commenced in 2022. An upside risk to our forecast is a further rise in the term premium, currently estimated to c0.5%. A lower outcome for inflation, due e.g. to a sharper fall in rent inflation than we expect, is a downside risk.

DNB MARKETS

EUROZONE

2025 cuts to be partly reversed

While net trade is expected to weigh on the eurozone economy in the coming years, domestic demand is poised to play a larger role in driving growth. The heightened sense of urgency among European policymakers is likely to result in more investments in defence, energy, and innovation. The ECB will likely deliver three additional rate cuts in the first half of 2025, but faced by disappointment as inflation gradually drifts upward from the second half of the year, we expect policy rates to increase again in the winter 2026/2027.

Sub-par economic growth amid a tight labour market in 2024

The eurozone economy has maintained a steady yet modest pace of growth in 2024. We estimate GDP increased by 0.7% YOY, with substantial divergence between the member states. The Spanish economy is in the lead, continuing to post unusually strong growth rates. The German economy continues to be a laggard, posting a 0.2 GDP *decline* % in 2024.

Eurozone unemployment has declined further, to a record-low level of 6.3%. While the proportion of businesses reporting labour shortages has decreased from the record-high levels observed in 2022, it remains significantly above historical averages, also in Germany.

The economy has been supported by positive contributions from net exports and consumption. However, consumption has been underwhelming despite a significant rise in household purchasing power, driven by a robust rebound in real wages alongside continued employment growth. Many consumers have opted to allocate a larger portion of their income to savings, likely influenced by higher interest rates and ongoing uncertainty about economic prospects.

Germany's economy is grappling with significant challenges, particularly in its sizable manufacturing sector. Energy-intensive factories have ceased production due to unprofitability following the surge in energy prices in recent years. Other industries, such as car manufacturers, are continuing to lose market share to Chinese competitors.

EZ forecasts – percentage change from previous year

	2024	2025	2026	2027	2028
Private consumption	0.9	1.2	1.3	1.3	1.2
Public consumption	2.3	1.4	1.0	1.2	1.0
Investments	-2.1	1.7	2.6	3.0	3.2
Exports	1.0	0.7	1.2	1.2	1.2
Imports	0.0	1.5	1.9	2.0	2.0
GDP	0.7	1.2	1.2	1.2	1.2
Unemployment (level, %)	6.4	6.2	6.2	6.1	6.2
Headline inflation	2.4	2.6	2.6	2.6	2.7
Core inflation	2.8	2.5	2.5	2.6	2.7

Source: LSEG Datastream, DNB Markets

Kjersti Haugland
kjersti.haugland@dnb.no
+47 91 72 37 56

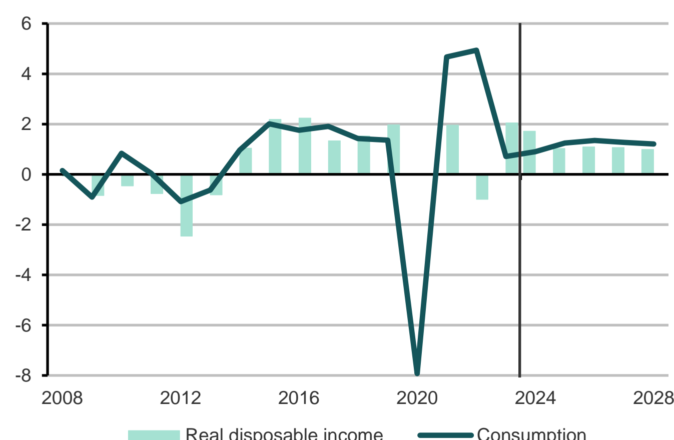
A likely turning point for investments in 2025

We believe 2025 will mark a turning point for investments, which have been subdued in recent years. A key priority will be a significant increase in government defence spending. The incumbent President Trump's calls to raise NATO's spending target from 2% to 5% of GDP—alongside threats to withdraw security guarantees for countries failing to meet this threshold—highlight the growing pressure on U.S. allies to bolster their own defence capabilities. Additionally, eurozone policymakers will likely focus on driving investments to improve the region's energy balance, a persistent challenge following the collapse of its energy partnership with Russia.

EZ: Investments. % of GDP. Actual and projections

Source: LSEG Datastream, DNB Markets

EZ: Households, % YOY. Actual and projections



Source: LSEG Datastream, DNB Markets

Moreover, we anticipate a gradual increase in policy-driven investments aimed at enhancing the self-sufficiency and growth potential of eurozone economies. Since the early 2000s, the EU has fallen significantly behind the U.S. and China in critical, technologically advanced sectors vital to national interests. The urgency to address this shortfall has intensified alongside rising geopolitical tensions.

In September 2024, the EU Commission released a pivotal report led by former ECB governor Mario Draghi. In it, Draghi urged EU policymakers to take decisive action to improve competitiveness and productivity growth, stating, "*We have reached the point where, without action, we will have to either compromise our welfare, our environment, or our freedom*."

Higher government defence spending, and gradual increase in policy-driven investments aimed at enhancing the self-sufficiency and growth potential of eurozone economies

The Draghi report outlines several immediate measures, including large-scale and coordinated public-sector-supported investments, reductions in regulatory and administrative burdens on European businesses, and accelerated integration of member states' capital markets. It also emphasizes the need for a more agile and lenient decision-making process to enhance the EU's ability to execute industrial strategies effectively. This approach would align fiscal, trade, and foreign policies, mirroring successful practices observed in the US and China.

We anticipate progress on EU-wide investment efforts moving forward, though not a dramatic transformation. Many member states face limited room for public spending due to their higher debt burdens. In our view, Germany must take on a central role as the key driver of this investment upturn. The country benefits from a low public debt burden and a top-tier credit rating, largely due to its self-imposed fiscal discipline rule enshrined in the constitution in 2009. The downside of Germany's fiscal conservatism has been decades of underinvestment in critical areas such as infrastructure, digitalization, and education. More generally, Germany struggles, like its peers in Europe, with a static industrial structure, and a concentration of investments in mature technologies in sectors with abating productivity growth, like the automotive sector.

As an economy with solid public finances, Germany must take on a central role

As the German parliamentary election approaches on 23 February, there appears to be broad consensus on the need to boost investments. Political parties differ on how to achieve this goal, with proposals ranging from tax cuts (CDU/CSU) to large-scale public investment funds (SPD), akin to the U.S. Inflation Reduction Act. Regardless of the chosen strategy, involving higher formal deficit or the creation of off-budget special-purpose vehicles, we believe that a shift toward looser fiscal policies will be inevitable.

Consumers poised to drive growth as net trade becomes a drag

Higher US tariffs on European goods are likely to restrain export growth, resulting in a consistent negative contribution from net trade throughout our forecast period. Domestic demand is poised to play a larger role in driving growth. We anticipate consumption growth to accelerate in 2025, stabilizing at approximately 1.3% YOY over the next three years, aligning closely with projected increases in households' real disposable income. Additionally, rising mortgage demand in the second half of 2024 suggests that housing investments have bottomed out, with a rebound expected from 2025 onward. Together with higher business and public investments, as outlined earlier, this will contribute to an uptick in economic growth to around 1.2%—a level we consider normal for the eurozone. We anticipate the labour market to remain tight, influenced by a shrinking working-age population, with unemployment hovering near the record-low level of 6%.

Solid growth in households' real disposable incomes will support higher consumption growth and rising housing investments

Inflation to prove more stubborn than projected by the ECB

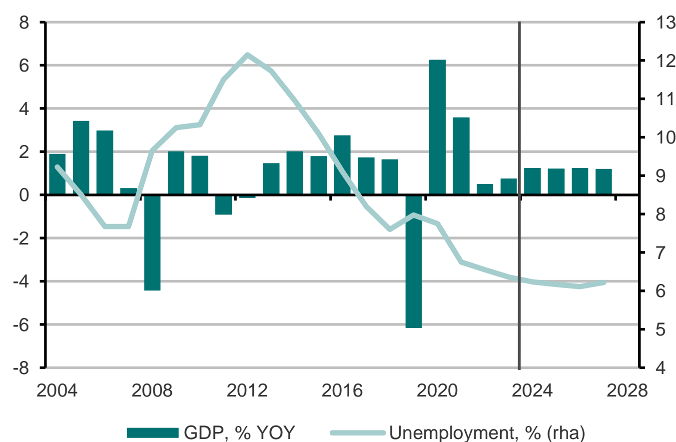
Core inflation fell by 1%-point during 2024, to 2.7% YOY in Q4. This decline was entirely driven by goods inflation, which has returned to pre-pandemic levels. Looking ahead, we believe further declines in goods inflation are unlikely and instead anticipate a slight upward trend.

Services inflation, on the other hand, has remained steady at around 4.0% year-over-year for more than a year. This persistence is driven by a combination of elevated wage growth and weak productivity growth. Wage growth is expected to decline modestly by 0.7 %-points to 3.8% in 2025, stabilizing between 3.5% and 3.75% in subsequent years—well above the levels seen in the 15 years before the pandemic. The ECB, however, forecasts a sharper decline, with wage growth dropping to 3.4% in 2025 and 2.9% in 2026. Unlike the ECB, we are sceptical of a near-term improvement in productivity growth. Consequently, we expect persistently high wage costs to constrain the decline in services inflation throughout our forecast horizon.

While the ECB projects core inflation to fall to 2% YOY by the end of 2025, we anticipate that the decline will plateau at approximately 2.4% YOY in the second half of the year. Beyond this, we expect core inflation to gradually rise toward 2.7%

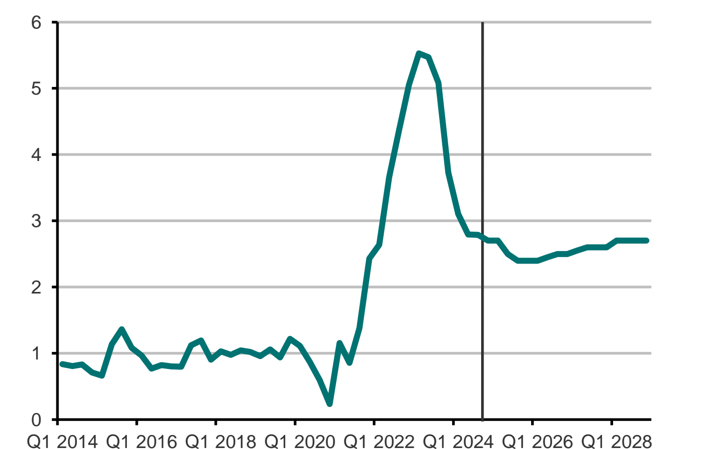
While the ECB projects core inflation to fall to 2% YOY by the end of 2025, we anticipate that the decline will plateau at approximately 2.4% YOY in the second half of the year. Beyond this, we expect core inflation to gradually rise toward 2.7%, driven by the ripple effects of ongoing structural shifts in the world economy fundamentally related to rising protectionism and the energy transition (for more, read the report summary).

EZ: GDP and unemployment. Actual and projections



Source: LSEG Datastream, DNB Markets

EZ: Core Inflation*, % YOY. Actual and projections



Source: LSEG Datastream, DNB Markets * HICP excluding food, energy, alcohol and tobacco

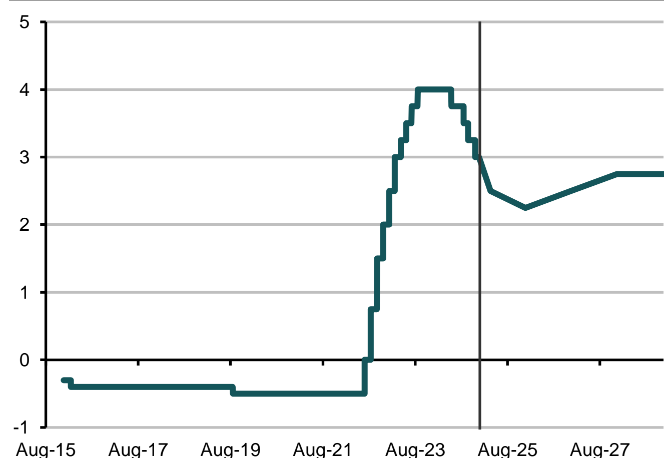
ECB to cut rates by 75bp in 2025, followed by 50bp hikes in the winter 2026/2027

The ECB reduced its policy rates by a total of 1 %-point during the second half of 2024. Looking ahead, we anticipate a modest decline in inflation in the near term. However, the introduction of U.S. tariffs on European imports is expected to pose a risk to the eurozone economy, increasing concerns among policymakers about potential negative impacts. As a result, we project the ECB will implement three additional rate cuts this year—in January, March, and June—bringing the deposit rate down to 2.25%, a level likely regarded by policymakers as close to neutral.

From mid-2025 onward, we expect the ECB to adopt a more cautious stance as our forecasts indicate that the downward trends in wage growth and inflation will stabilize

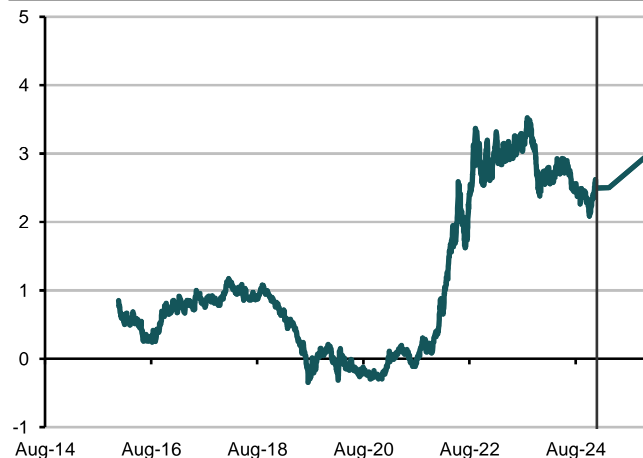
From mid-2025 onward, we expect the ECB to adopt a more cautious stance as our forecasts indicate that the downward trends in wage growth and inflation will stabilize. By late 2026, we believe the gradual upward drift in inflation will have persisted long enough to prompt the ECB to shift policy back into restrictive territory. Accordingly, we anticipate two rate hikes—in December 2026 and March 2027—bringing the deposit rate to 2.75%.

EZ: ECB Deposit Rate, %. Actual and projections



Source: LSEG Datastream, DNB Markets

EZ: 10-year swap rate, %. Actual and projections



Source: LSEG Datastream, DNB Markets

Key risks: Political inaction and escalating debt concerns

A key risk to our forecasts lies in the potential for policymakers, particularly in Germany, to be less prepared or capable to respond effectively than we have assumed. The political landscape across the eurozone is increasingly fragmented. A growing share of votes is being captured by far-right and far-left parties, reflecting polarization that could complicate consensus-building and delay critical decision-making processes—much like the ongoing political stalemate currently observed in France.

Should political inertia take hold, it could slow the momentum for much-needed investments and policy reforms, posing a notable downside risk to our projections. In this scenario, economic growth could weaken further, leading to a softer labour market and slower wage growth than anticipated. This, in turn, could result in a larger and more prolonged decline in inflation compared to our forecast, potentially opening the door for lower key policy rates than we have currently estimated.

Subdued economic growth could exacerbate existing investor scepticism about the ability of high-debt countries to manage their obligations.

Subdued economic growth could exacerbate existing investor scepticism about the ability of high-debt countries to manage their obligations. This could trigger turbulence in government bond markets, driving yields higher as perceived credit risks increase. In turn, this might reignite fears of a potential break-up of the currency union. This situation would force member states into a difficult choice: prioritizing investments to bolster long-term growth potential or implementing austerity measures to reassure investors and stabilize financial markets. Striking the right balance will be critical, as either path carries significant economic and political ramifications.

The consequence could be turbulence in government bond markets and a reignition of fears of a potential break-up of the currency union.

DNB MARKETS

UK

Stubborn inflation, sluggish growth

The British economy surprised on the upside at the beginning of 2024, but then slowed. Nonetheless, we expect GDP growth to rebound this year, driven by slightly higher private consumption and a strong uptick in government demand. Underlying inflation remains elevated, with services inflation still significantly exceeding the inflation target. The Bank of England (BoE) is likely to continue its gradual easing of monetary policy, but we anticipate that policy will remain restrictive for an extended period.

The upswing has slowed, but is likely to resume

GDP growth exceeded expectations in the first half of last year but subsequently slowed, raising doubts about the continuation of the upswing. PMI indicators for manufacturing and services have declined and are now below 50, signalling a contraction in activity. Although real disposable income increased in 2024, private consumption has not yet picked up due to higher savings. We believe the upward trend in savings will slow and possibly turn negative, leading to stronger consumer demand going forward. The savings rate is currently much higher than it was pre-pandemic. Moreover, consumer confidence improved significantly during 2023–2024 and is now close to its long-term average. As a result, we expect households' demand for precautionary savings to diminish.

The Labour government, which assumed power in July last year, introduced an expansionary budget in October, with a potentially significant impact on growth from a more relaxed fiscal stance. Increased public spending was only partially offset by higher taxation, causing interest rate expectations to rise. Additionally, fiscal guidelines revealed limited room for manoeuvre to achieve budget balance within five years. The subsequent rise in bond yields appears to have eliminated this buffer, making a shift toward a less expansionary stance likely in March. However, we have still revised government spending upward significantly for 2025 and 2026, which should support GDP growth in that period.

The upswing has slowed, but a resumption this year, driven primarily by consumer demand seems likely

UK forecasts – percentage change from previous year

	2024	2025	2026	2027	2028
Private consumption	0.9	1.2	1.5	1.6	1.6
Public consumption	2.0	2.8	2.2	1.4	1.2
Investments	1.8	2.1	2.1	2.4	2.2
Exports	-1.7	1.0	1.7	2.0	2.0
Imports	1.4	1.9	2.4	2.2	2.0
GDP	0.8	1.3	1.5	1.6	1.6
Unemployment (level, %)	4.3	4.3	4.1	4.0	4.0
Inflation	2.6	2.7	2.9	2.7	2.6
Core Inflation	3.7	2.9	2.8	2.7	2.6
Wages	5.1	4.1	3.6	3.8	3.8

Source: LSEG Datastream, ONS, DNB Markets

Knut A. Magnussen
knut.magnussen@dnb.no
+47 47 60 40 46

Weak trend growth – negative output gap

Trend GDP growth has slowed markedly since Brexit, driven by lower productivity growth, an effect which was enforced due weak business investment under the pandemic. According to the OECD, potential growth is now close to 1% YOY. Actual growth remained below trend in 2023–24, causing the output gap to widen somewhat. This aligns with a moderate rise in the unemployment rate over the same period. In our forecast, the output gap will gradually close in the coming years.

A less-tight labour market has slowed wage growth

The easing of labour market pressures has been evident both due to a slight rise in unemployment and a reduction in vacancies. The LFS unemployment rate has risen from around 4% in late 2023 to 4.4% in October last year. At its peak in mid-2022, the number of vacancies matched the number of unemployed individuals. Since then, the ratio has declined to 0.6, easing wage pressures. The easing has likely contributed to slowing wage growth.

Wage growth, which exceeded 8% in mid-2023, was nearly halved the following year. However, this sharp decline was followed by a new uptick, with the three-month average wage level rising from 3.9% in August to 5.6% in November last year. While this upward trend underscores uncertainty about the trajectory of wage growth, we anticipate that the long-term downward trend will persist. Further reductions in wage growth are essential for the expected decline in services inflation.

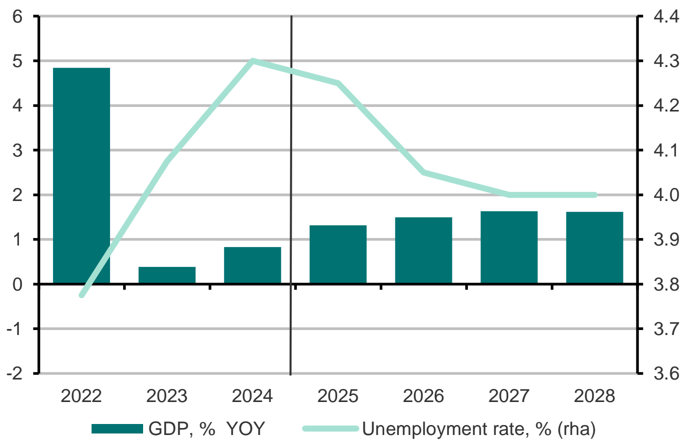
Inflation pressures to remain elevated

Services inflation remains elevated, but will gradually be lowered by a further decline in wage growth

Headline inflation returned to the 2% target in May last year but rose again in the autumn, ending 2024 at 2.5% YOY in December. Core inflation, excluding food and energy prices, remains above 3% YOY, averaging 3.3% in the second half of 2024. Additionally, services prices averaged 5.5% YOY in 2024, although they followed a declining trend throughout the year. Even at 4.4% YOY in December, services inflation remains well above the inflation target.

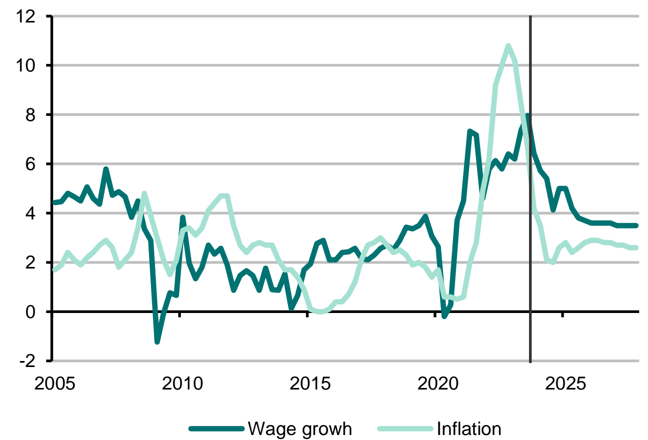
Services inflation is strongly correlated with wage growth and has so far declined in tandem with it. We forecast a further decrease in wage growth to almost 3.5% YOY next year. Lower headline inflation is likely to reduce wage demands, while higher unemployment and fewer vacancies are expected to weaken the bargaining power of unions and employees. Consequently, we expect services inflation to continue falling over the coming year. However, this suggests that inflation will not fully return to the target.

UK: GDP and unemployment



Source: LSEG Datastream, ONS, DNB Markets

UK: Wage growth and inflation, % YOY



Source: LSEG Datastream, ONS, DNB Markets

BoE to continue with gradual rate cuts this year

After maintaining the bank rate at 5.25% for one year, the Bank of England (BoE) reduced the rate by 25 basis points in August last year and further to 4.75% in November. In both September and December, the Monetary Policy Committee (MPC) decided to hold the rate steady, with

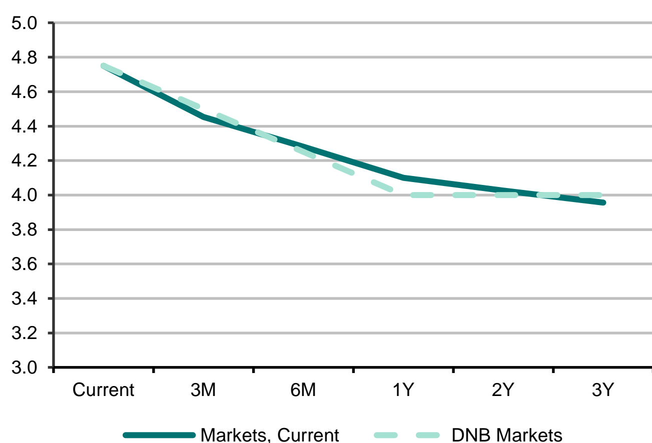
one dissent in September and three in December. The guidance suggests continued gradual cuts, and we expect three additional 25 basis-point reductions in February, May, and August this year. This would bring the Bank Rate down to 4%, which we consider to still be a restrictive level. Given our expectation that inflation will remain above the target in the coming years, we believe the MPC deems a restrictive stance necessary. Market pricing currently aligns closely with our forecasts, as illustrated in the left-hand chart below.

Bank of England will likely continue to ease the monetary policy stance well into this year

There are more reasons why we expect inflation to remain persistently high. First, we anticipate that the labour market will stay relatively tight. Without a significant rise in unemployment, wage growth - and consequently, services inflation - are likely to remain elevated.

Additionally, we expect that President Trump will impose higher tariffs on imports from Europe, prompting retaliation from European countries, including the UK. These trade frictions will likely exert upward pressure on inflation. Furthermore, we foresee other structural factors contributing to inflationary pressures, such as the need to improve self-defence capabilities, energy transition and reduced imports from China.

UK: Bank Rate, market expectations and forecasts, %



Source: LSEG Datastream, Bloomberg, DNB Markets

UK and US: 10y swap yield, %

Source: LSEG Datastream, DNB Markets

Long-term rates to rise further due to higher USD rates

The 10-year swap yield traded between 4.00% and 4.25% for most of last year. However, it dipped below 3.75% in the autumn before rising to around 4.60% in January, driven by unrest related to the fiscal policy target rule. Over the past two years, the spread against the 10y USD swap yield has averaged approximately 25 basis points. However, this spread has fluctuated significantly, ranging from close to zero to as high as 60 basis points.

Long-term rates are expected to increase in tandem with the US long rates

Our forecast predicts an increase in the USD swap yield to 4.25% in three months and further to 4.75% within 12 months. Given that our Bank Rate forecast aligns closely with market expectations, we expect the UK swap yield to continue trading 25 basis points above the US level. Accordingly, we project the UK swap yield at 4.50% in three months and 5.00% in 12 months.

If the budget is significantly tightened in March, GBP swap yields could potentially decline, moving closer to the USD level. However, we believe it is more likely that the 2025 budget will see small/minor changes, with the government instead opting to scale back expected spending plans for the coming years. In that case, we expect markets to remain sceptical about the achievability of the fiscal target, which would likely maintain upward pressure on rates.

DNB MARKETS

SWEDEN

Solid recovery - looming inflation

After three years of stagnation, we expect the Swedish economy to make a solid recovery in 2025, thanks to increased domestic demand boosted by lower rates. Intensified global economic and geopolitical challenges continue to make the way forward highly uncertain. Inflation will stay close to target this year before its starts rising. We expect the Riksbank to hold the policy rate at 2.25% until 2027, then reaching 2.75% after two hikes.

Swedish economy set to make a comeback

The development of the Swedish economy has broadly been in line with our August forecasts, and our view on the future development is basically unchanged. After a period of stagnation below its full capacity, we see signs of recovery for the Swedish economy. After zero growth in 2023, we forecast a pick-up of 0.6% in 2024. The GDP indicator for November suggested an increased activity by 1.4% MOM and 1.1% YOY. Underlying data indicated a broad increase in activity across manufacturing and service production. Household consumption also increased by 1.1% MOM and 1.6% YOY. Furthermore, the October number was revised upwards by 0.4%-points to 0.1% MOM. In 2025, we forecast the economy to grow by 2.1% followed by 2.3% in 2026 and 2.0% in 2027-28.

A final cut from the Riksbank will boost domestic demand further

The main contribution to higher economic activity will come from increased household consumption and investments, both supported by lower rates. Following our forecasted final rate cut in January, we expect the Riksbank to halt its monetary policy easing at 2.25%, observing the impact of a 175bp reduction over nine months on the broader economy. Core inflation CPIF-XE was 2.7% in 2024. We anticipate a stabilization at 2.2% YOY in 2025. For CPIF, which is affected by volatile energy prices, we forecast 2.0% YOY in 2025. In 2026 and 2027, we expect inflation to gradually increase again, primarily because of structural changes in the global economy (see introduction), and the Riksbank to respond with two hikes in 1H 2027, reaching a policy rate of 2.75%. Increased activity will slowly improve the currently weak labour market, bringing the unemployment rate from 8.5% in 2024 to 7.5% in 2028. Although the NIER Economic

Forecasts, Sweden: Percent change from previous year

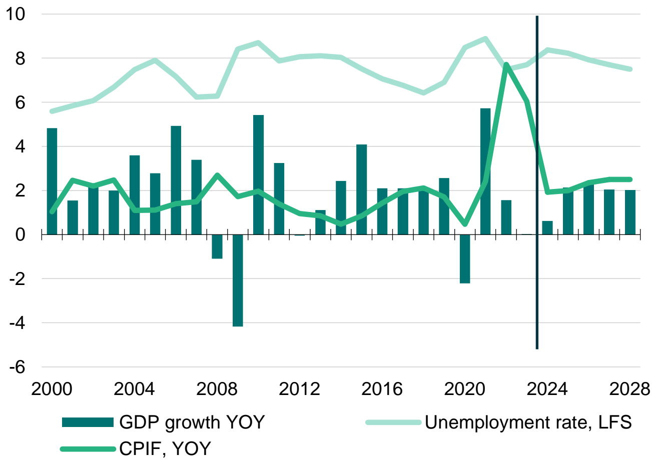
	2024	2025	2026	2027	2028
Private consumption	0.3	2.2	2.3	2.0	2.0
Public consumption	1.3	1.5	1.6	1.5	1.4
Investments	-1.1	3.4	3.2	3.0	3.0
Exports	2.1	3.1	2.8	2.8	2.8
Imports	2.2	3.8	3.0	3.0	3.0
GDP	0.6	2.1	2.3	2.0	2.0
Unemployment (level, %)	8.5	8.2	7.9	7.7	7.5
CPIF	1.9	2.0	2.4	2.5	2.5
CPIF-XE	2.7	2.2	2.4	2.5	2.5
Wages	4.0	3.5	3.5	3.5	3.5

Source: LSEG Datastream, DNB Markets

Ulf Andersson
ulf.andersson@dnb.se
+46 733 272 273

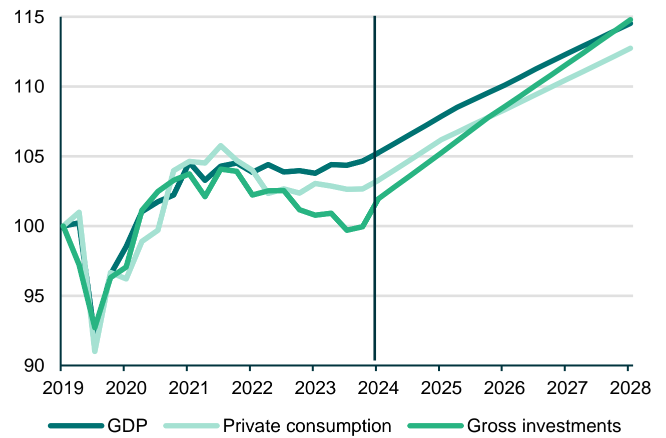
Tendency Indicator has improved from 85.3 to 97.5 the last year, it is still somewhat below its historical average reflecting some lasting uncertainty.

Sweden: GDP-growth, inflation and unemployment, %



Source: LSEG Datastream, DNB Markets

Sweden: Consumption and Investments, 100 = Oct 2019



Source: LSEG Datastream, DNB Markets

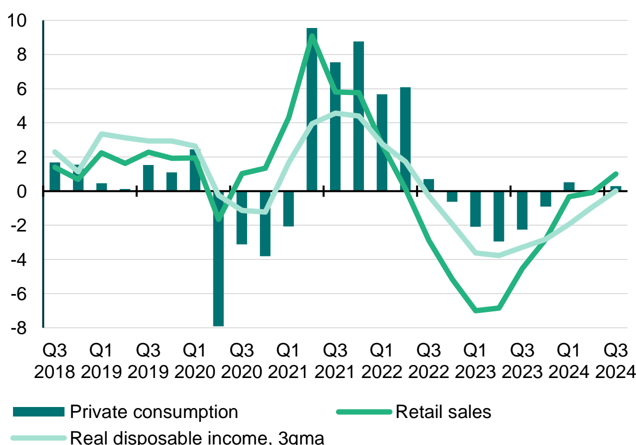
Private consumption to rebound with higher real disposable income

Real disposable income will increase, but growth fall due to higher inflation after 2025.

With inflation expectations at the two percent target, we expect the upcoming wage negotiations for the industry, a benchmark for wage formation in general, to result in a 3.5% yearly increase in 2025-2027. Thus, households' purchasing power is set to grow significantly compared to previous years. Since we expect inflation to pick up again from 2026 and the Riksbank to respond by hiking the policy rate in 2027, real wage growth (CPI-based) should peak in 2025 at 2.9% and fall back to 1.0% in 2028, leading to a moderate increase in private consumption for the whole period.

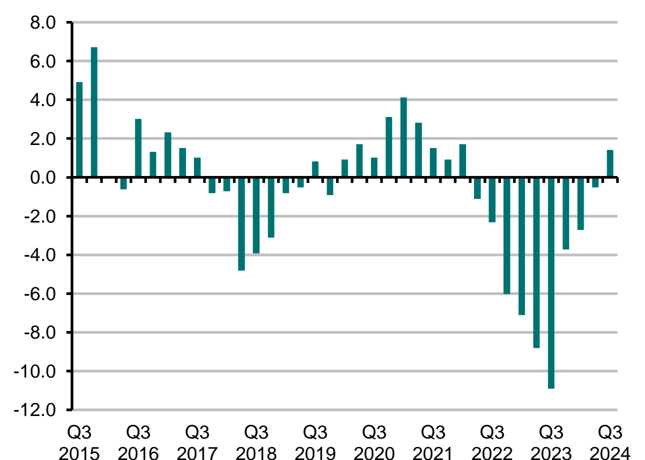
It is uncertain whether households will choose to spend or save their increased real disposable income. So far, we have not seen any decline in saving rates. The recent increase in consumption is rather a result of improving real incomes, and we expect that this will drive a rebound in consumption even as savings rates remain unchanged. One strong indication of this is the significant rise in retail sales in 2024. Furthermore, consumer loans have started to increase, suggesting rising demand from households. In 2025 and 2026, we forecast private consumption to grow by 2.2% and 2.3%, before it falls back to 2.0% in 2027 and 2028, in line with the declining trend in real wages.

Sweden: Household consumption and retail sales, % YOY



Source: LSEG Datastream, DNB Markets

Sweden: Housing investments, % QOQ SA



Source: LSEG Datastream, DNB Markets

Lower rates and geopolitics to boost investments across many sectors

Housing investments are set to make a significant comeback in 2025.

Boosted by significantly lower rates and higher economic activity in general, we forecast a broad recovery in gross fixed investments after two years of negative growth. Housing investments have been severely hit in this recession and are the main explanation for the drop in total investments. After nine consecutive quarters of decline, some growth was registered in Q3 2024. In 2025 we forecast solid growth, which will bolster total investments markedly. We also expect to see more public investment in areas related to defence, infrastructure and energy. Although these are expected to grow significantly in the years to come, not least due to geopolitical reasons, most of them will likely be carried out over many years and therefore contribute less or arbitrarily to GDP growth in individual years. We also expect to see more public-private investments in these areas, i.e. private investments led by public initiatives. Altogether, we forecast a growth for gross investments of 3.4% in 2025 and 3.2% in 2026, then declining somewhat to 3.0% in 2027 and 2028 as housing investments will flatten.

Continued fiscal discipline to be challenged

The surplus target is expected to be replaced by a balance target in 2027.

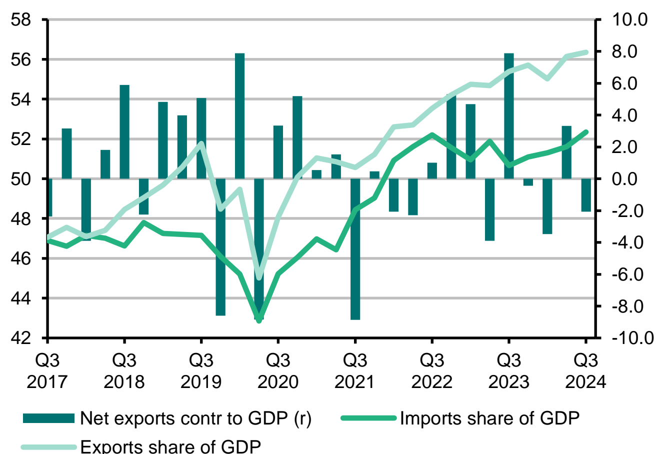
Although the budget bill for 2025 included some stimulative measures such as reduced income tax, the government's fiscal policy continues to be characterized by budget discipline and re-prioritizations rather than expansion. The current financial deficits, which are expected to continue until 2027, are primarily due to increased pension costs in local governments, along with automatic stabilizers related to the ongoing recession. Structural deficits are limited. Looking ahead, we expect the fiscal policy to be a bit more expansionary. The general election in 2026 is assumed to be preceded by some new fiscal initiatives. We also expect increased international pressure on public spending, e.g. in defence-related areas, which will raise both short-term consumption and long-term investments. The current surplus target has been proposed to be replaced by a balance target in 2027. In all, we forecast public consumption to grow by 1.5% in 2025, 1.6% in 2026, followed by 1.5% in 2027 and 1.4% in 2028.

Swedish foreign trade will be indirectly affected by tolls

Swedish foreign trade is well diversified. About 75% of all goods exports go to Europe. A bit less than 10% go to the US.

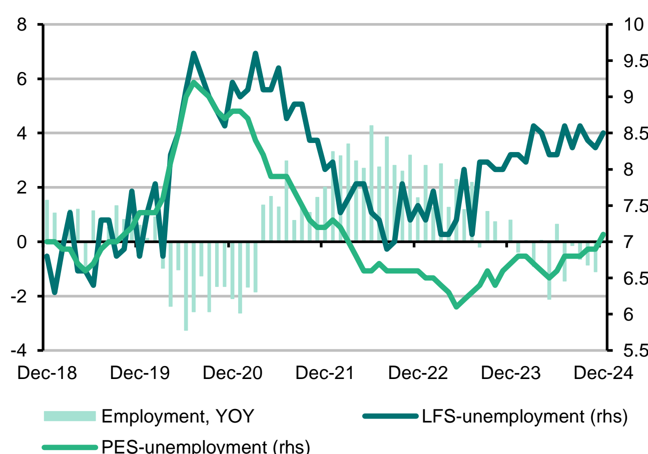
Assessing the future development of Swedish foreign trade is challenging. The uncertainty surrounding potential tariffs imposed by the Trump administration on various countries and products, and the subsequent retaliatory measures, complicates predictions. These restrictions may also fluctuate due to ongoing negotiations. Although Swedish foreign trade is well-diversified, it remains susceptible to the broader impacts of increasing global protectionism. With nearly 75% of exports directed to Europe, we anticipate rising exports in tandem with increasing economic activity, although the subdued Germany economy may have a negative impact. Imports are also expected to grow as domestic demand in Sweden surges, resulting in a relatively stable contribution from net exports. We forecast exports growth of 3.1% in 2025, followed by 2.8% annually from 2026 to 2028.

Sweden: Net exports contribution to GDP growth, %



Source: LSEG Datastream, DNB Markets

Sweden: Labour market trends, %



Source: LSEG Datastream, DNB Markets

Weak labour market to improve slowly

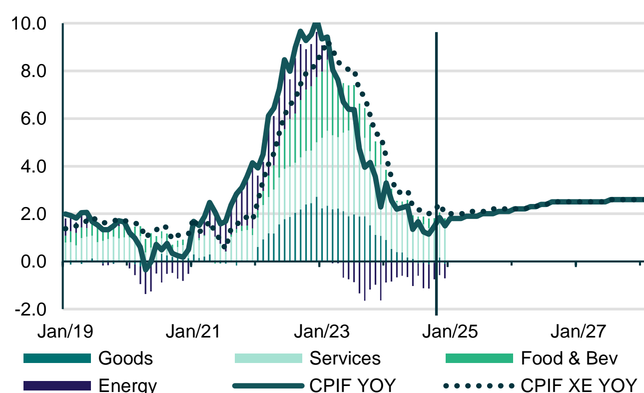
The Swedish labour market has weakened significantly. LFS unemployment rate ended at 8.5% in December after fluctuating between 8.1% and 8.6% throughout 2024. The construction sector has been the hardest hit, significantly impacting the total employment level in Sweden. We anticipate a slow improvement in the labour market. In 2025, we forecast an unemployment rate of 8.2%, gradually decreasing to 7.5% by 2028, which NIER considers the equilibrium level. Achieving lower unemployment rates will probably require structural reforms. We expect employment levels to remain around 70%.

Inflation remains close to 2 percent in 2025 before it starts rising again

Inflation has fallen rapidly in Sweden. CPIF was 1.9% YOY in 2024, while core inflation CPIF-XE, which excludes volatile energy prices, was 2.7%. In December, CPIF reached 1.5% YOY and CPIF-XE 2.0%. In 2025, we expect inflation to stay close to the two percent target. An important contributing factor to the lower inflation in Sweden compared to many other countries is our central and normative wage negotiations, which reduces inflation expectations and the risk of a wage-price spiral. We expect the new central agreement, to be presented in March 2025, to stipulate a yearly wage increase of 3.5%, and that this level will remain throughout the forecast period. An expected productivity growth between 1% and 1.5% will also act as a restraint on inflation. Nevertheless, we expect other forces to gradually contribute to higher inflation, especially in goods, such as a significant increase in domestic demand and a weak Swedish krona. However, the most important factor is the major structural changes already taking place in the global economy, which will speed-up further with Donald Trump's economic policy. In all, we forecast CPIF to be 2.0% YOY and CPIF-XE 2.2% in 2025. In 2026 both CPIF and CPIF-XE are expected to increase to 2.4% YOY, then reach 2.5% in 2027 and 2028.

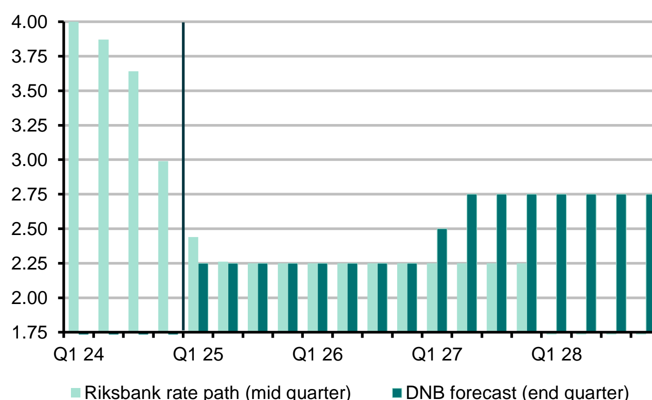
Swedish inflation is mitigated by central and normative wage negotiations but is still expected to rise due to global structural changes.

Sweden: Contribution to CPIF inflation and DNB forecast, %



Source: Riksbank, LSEG Datastream DNB Markets

Sweden: Riksbank policy rate path and DNB forecast, %



Source: Riksbank, LSEG Datastream, DNB Markets

The Riksbank stops at 2.25% in January…and starts hiking in 2027

Since May, the Riksbank has lowered the policy rate from 4.00% to 2.50%. In January, we anticipate another cut by 25bp, which we expect to be the last one. This is in line with the Riksbank's current rate path. These total 175bp will provide enough monetary stimulus to support Swedish domestic demand without unnecessarily risking a resurgence of inflation when the economy turns back to normal activity. That would also limit the risk of further deterioration of the krona exchange rate. Since we forecast inflation to start increasing in 2026, the Riksbank will need to respond with two hikes in 2027, bringing the policy rate to 2.75%. The development in the interest rate market points in a similar direction. Long-term US interest rates have risen sharply along with increased fears of inflation and the realization that the Fed may not ease its monetary policy further. Swedish long-term interest rates have followed suit. The Swedish ten-year interest rate swap is currently quoted around 2.65%. In 3 months, we forecast 2.75% and in 12 months 3.00%. High volatility is to be expected.

Lowering the policy rate from 4.00% to 2.25% is regarded as sufficient to get the Swedish economy back on track.

DNB MARKETS

CHINA

Policy-put keeps slowdown steady

The Chinese economy faces intensifying domestic and external pressures in the coming years, largely due to escalating US-China tensions and costly structural shifts in its growth engines toward technology-driven sectors. The process entails some overcapacity, which in turn squeezes margins and wage growth. Policymakers are likely to rely on monetary easing and targeted fiscal expansion to counter rising protectionism, but we expect that they will remain cautious in providing stimulus. Our baseline projects a deceleration in real GDP growth from 4.5% in 2025 to 3.6% by 2028.

Slowing growth with incremental support rather than stimulus 'bazooka'

In 2024**,** Chinese economic activity was weighed down by a prolonged real estate downturn, weak consumption (as households maintained high savings), and signs of overcapacity with low profitability and declining capacity utilisation. Despite these headwinds**,** nationwide electricity usage grew by 6.4% YOY in 2024**,** indicating solid production. However, soft ex-factory prices highlighted subdued domestic demand.

A key bright spot was exports: the trade surplus reached a record USD1tn, and China's global export share grew in 2024. As savings ballooned, and the investments in advanced manufacturing industries did not fully compensate for the declines in property investments, net exports reached new highs. Meanwhile, fiscal stimulus was modest, with authorities favouring incremental measures over a decisive 'bazooka'. The policy focus remained on limiting further downside risks and guiding the economy towards high-quality, technology-driven growth.

Not until Q4 did Xi's 'policy-put' get triggered, as authorities sought to boost consumer confidence by restructuring local government debt (ensuring wages and fees owed to firms were paid), directly supporting equity markets, and tackling unsold housing stock. These measures aimed to stabilize financial conditions and nudge households toward spending.

Uncertainty under Trump: A growing headwind for Chinese exports

China's robust export performance seems increasingly at risk from impending protectionist measures. In China, Trump is viewed as a dealmaker who employs tariffs to pressure counterparts into concessions, but there is uncertainty on his desired quid pro quo. For instance, Trump has signalled desires to rejuvenate American manufacturing and reduce US trade deficits (which requires a weaker dollar and

China forecasts – percentage change from previous year

	2024	2025	2026	2027	2028
GDP (reported)	5.0	4.5	4.0	4.0	4.0
GDP (estimated)	4.7	4.3	3.9	3.5	3.6

Source: LSEG Datastream, DNB Markets

Kelly K. Chen
kelly.ke-shu.chen@dnb.no
+47 91 73 40 10

stronger CNY along the lines of Japan's revaluation of the JPY under the Plaza Accords) but he also touts a strong dollar as evidence of US global leadership. Trump's Phase-1 trade deal in 2020 notably granted US firms' greater access to Chinese markets. In contrast, his selection of China hawks for his administration suggests more decoupling policies ahead. These internal inconsistencies underscores the policy uncertainty ahead.

Chinese exports will remain resilient due to trade connectors, even as direct US-bound exports drop

We expect stepwise tariff increases on Chinese goods, reaching the 60–70% range promised during his campaign. Such tariffs would significantly affect China's US-bound exports, which represented 2.4% of Chinese GDP in 2024. However, we also expect the drop in exports to the US to be partially offset by continued gains Chinese exports to developing economies (8.3% of Chinese GDP in 2024), as well as Europe (3.1%).

In part this is due to Chinese manufacturing remaining highly competitive. The deep production networks, access to skilled staff and massive returns to scale are natural comparative advantages. Moreover, we believe ongoing supply chain reconfigurations may offset some of the damage. In our view, 'Made-in-China-assembled-in-X' trade pathways are likely to persist, as shutting them down would likely result in even higher inflation in the US. However, select sectors—where Trump explicitly aims to reshore manufacturing—will see tight restrictions that fully cut off these channels.

Chinese policymakers' response will selectively boost investment

Chinese authorities have been cautious with large-scale stimulus, preferring flexibility amid what they see as a long-term rivalry with the US. China sees that tensions which began under Obama's "Pivot to Asia" and continued under Trump, intensified under Biden's strategy of containment – notably utilising technology chokepoints on e.g. semiconductors and export restrictions to limit Chinese advancement. If tensions worsen, policymakers want to retain room to manoeuvre. Facing tariff pressures and weak domestic demand, the government is expected to deploy multiple tools to stabilize growth in 2025–2026:

Loose monetary policy will boost investments and allow a CNY depreciation to offset export losses

- **Monetary Policy:** For the first time since 2008, the People's Bank of China (PBOC) is likely to adopt a "moderately loose" policy stance. We anticipate policy rate cuts of 50bp in both 2025 and 2026, lower reserve requirements, and support for credit expansion, especially targeting "new quality productive forces" such as advanced manufacturing, green tech, biotech, AI, and robotics.
- **Fiscal Policy:** We expect the augmented fiscal deficit to widen by about 2–3% of GDP in 2025. However, this will primarily fund previously hidden local government debt restructuring, the purchase idle land and unsold properties, provide more direct transfers to low-income households and significantly expand on subsidies for trade-in programs. For electric vehicles, such cash-for-clunkers trade-ins are a 'win-win-win': boosting consumption, enhancing competitiveness, and reducing reliance on imported crude oil.
- **Currency Depreciation:** A large CNY appreciation (a "Plaza 2.0 Accord") appears unlikely. It would permanently alter value chains, in contrast to the transitory nature of Trump's bargaining chips during his 4-year tenure. Instead, the CNY may be allowed to depreciate moderately to offset export losses—especially if the Federal Reserve hikes rates while China eases. We believe that the PBOC will still attempt to avoid sharp swings to maintain market confidence.

Unifying a single Chinese domestic market to boost intra-provincial trade

- **Structural Reform:** Policymakers may step up efforts to unify the domestic market by easing restrictions on capital and labour mobility between provinces, including further relaxation of the household registration (hukou) system. While these measures aim to lower precautionary savings, they are long-term in nature and unlikely to deliver immediate boosts to consumption.

Unlike previous cycles that leaned heavily on infrastructure and property investment, current stimulus is expected to focus more on government consumption and the provision of public goods, along with boosting technological advancement and targeted household support.

Housing likely to remain a drag on growth until 2027

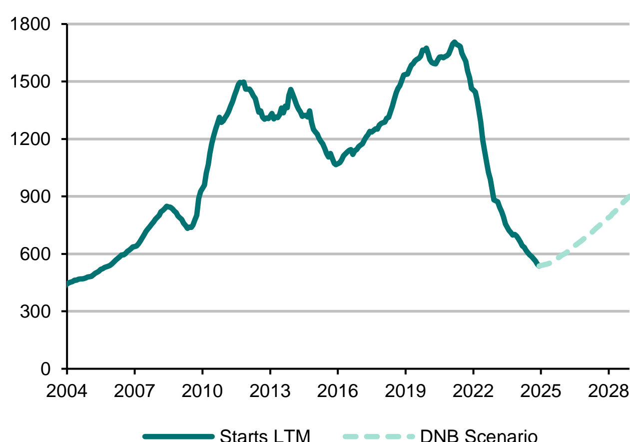
China's shift from a housing-driven economy requires hefty investments in other sectors to compensate for falling property investments. We believe this will give rise to pockets of overcapacity. Based on the existing construction pipeline, housing activity should keep contracting until at least **H2 2027**, with floorspace under construction likely to decline by 8–9% YOY over the next two years. This estimate includes roughly **500 million sqm** of halted projects we expect will be restarted with government assistance.

Floorspace under construction likely to decline by 8–9% YOY in 2025 and 2026

The new rescue package will see local governments' purchase unsold properties. The aims are to clear excess inventories, stabilize prices and break the negative feedback loop between falling home prices and weak sentiment. Yet, these measures will likely keep valuations relatively high, preventing the necessary price correction. Despite nationwide household savings exceeding **15% of GDP**, the elevated price-to-income ratios—**around 7-10x in smaller cities and exceeding 30x in major ones**—suggest that any rebound in housing sales will be gradual. Without renewed speculative interest in property investment, which appears unlikely, housing prices are not expected to rebound sharply even after excess stock is cleared. As a result, construction-related commodity demand will remain muted, sustaining a disinflationary impulse in global markets.

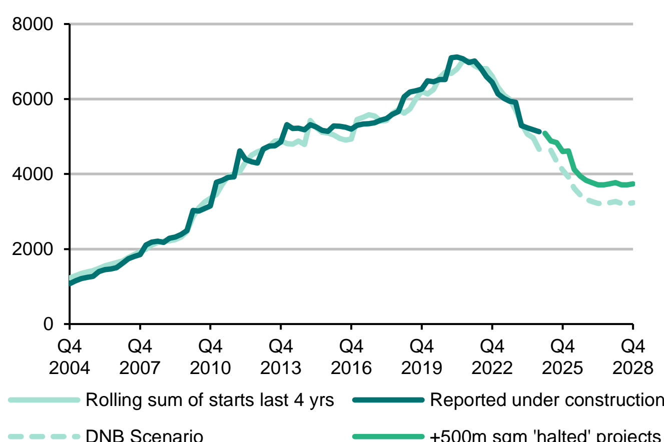
Construction-related commodity demand will remain muted until 2027, a disinflationary impulse in global markets

China: New home starts LTM, million sqm. DNB Scenario



Source: LSEG Datastream, DNB Markets *Dashed line = DNB Scenario

China: Floorspace under construction LTM (m sqm)



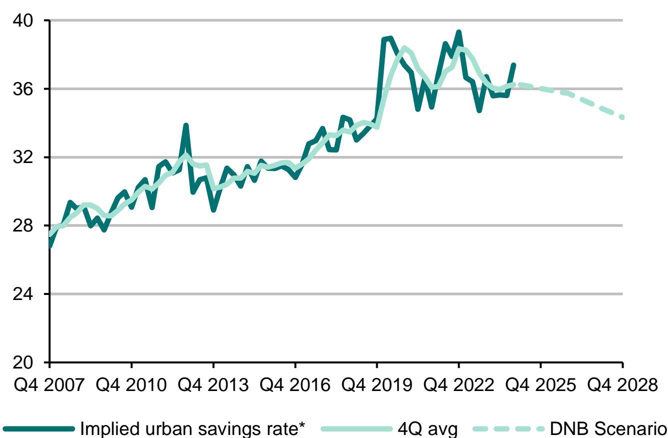
Source: LSEG Datastream, DNB Markets *Dashed line = DNB Scenario

Targeted consumption stimulus as a new trade war looms

Household consumption weakened in 2024, with modest income growth and a sluggish property market keeping consumer confidence near record-lows. In our view, the rising social tensions—evidenced by occasional stabbings and car-ramming incidents—likely helped trigger the 'policy-put' in late 2024. Though the support measures announced quelled unrest, domestic demand remains soft. Furthermore, additional supply-side stimulus and more investments will likely exacerbate the challenges of overcapacity, putting pressure on margins and wage growth.

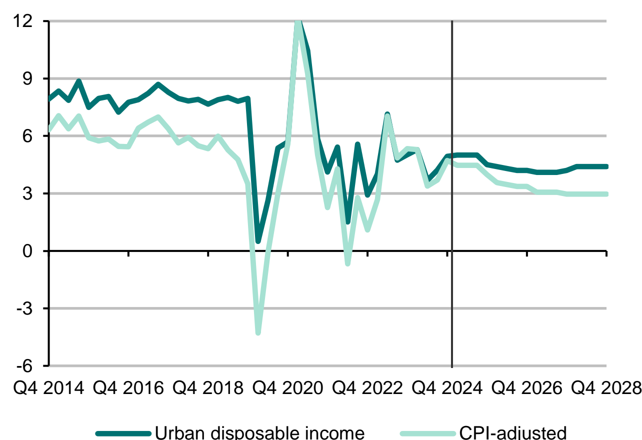
Expanded subsidies for trade-in programs (for items like cars, phones, and electronics) may provide short-term sectoral support, particularly for industries vulnerable to another trade war. However, precautionary savings remain high, and excess savings built up during the pandemic will only gradually be deployed.

China: Implied urban savings rate %. DNB Scenario



Source: LSEG Datastream, DNB Markets *Seasonally adjusted by DNB

China: Urban income growth YOY%. DNB Scenario



Source: LSEG Datastream, DNB Markets

Key risks to our outlook

Ranging from the actual tariff implementation, potential bargains struck with Trump, stimulus policy uncertainties, the spectrum of outcomes for China's economy is wide and sometimes appears binary. Below we list some key risks to our outlook:

- Tariff implementation: Our base case assumes Trump increases tariffs to 60–70% stepwise but crucially allows most of the 'Made-in-China-assembled-in-X' trade to continue. If, instead, broad-based rules of origin are enforced, inflationary pressures in the US could spike, while global demand for Chinese goods weakens sharply. Conversely, Trump may succeed in striking a (at present unknown) deal with China, lowering tariffs again.
- **A potential Chinese 'Green Marshall Plan':** China leads in green energy value chains (e.g., batteries, solar PV, EVs). With Trump exiting the Paris Agreement and Europe considering additional tariffs, China could bolster global demand through green financing and increasing the investment in developing economies ('A Green Marshall Plan'). This would have the added benefit of boosting CNY adoption. However, climate financing and climate compensation remains a contested issue globally. Western backlash against similar initiatives (e.g. Belt and Road) and China's growing debt burdens make large-scale action less likely. If it does happen, it could accelerate the green energy transition, boost China's GDP growth and reduce overcapacity in these sectors – at the cost of debt expansion.
- **Social unrest:** Significant domestic discontent could prompt Beijing to abandon its cautious stance and deploy more aggressive fiscal measures to maintain stability. In our view, such unrest would most likely result from prolonged economic weakness with stagnation and zero wage growth, rather than sudden external shocks. The Chinese society tends to be resilient and able to endure external challenges.
- **Cross-Strait tensions:** We assume tensions regarding Taiwan will rise but not escalate to military confrontation in our outlook. In our view, Trump is likely to maintain the US policy of strategic ambiguity, while Taipei's hung parliament will limit major policy shifts. Public opinion in Taiwan increasingly favour maintaining the status quo indefinitely over moving toward independence. Under these conditions, the mainland is unlikely to initiate military intervention. Yet, perceptions of risk are set to rise. 2027 is the centenary of the Chinese army, which Xi aims to fully modernize by that date. Some analysts (in our view mistakenly) interpret the goal to modernize defence *capabilities* as Xi setting a deadline to "invade Taiwan". Taiwan remains a critical issue for mainland China, seen as the brightest red line by its people. Thus, explicit US defence commitments toward Taiwan could become a bargaining chip under Trump – if managed poorly introducing additional and significant risks.

DNB MARKETS

EMERGING MARKETS

Some winners, divergent prospects

Emerging markets are grappling with increasingly divergent outlooks. While certain economies could reap benefits from resilient domestic demand and 'China-plus-one' investment strategies, other developing economies must confront mounting USD debt burdens. Furthermore, the pressures from deglobalization under Trump 2.0 threaten the productivity gains that have long fuelled growth and convergence.

Diverging economic prospects for emerging economies

Emerging markets are facing increasingly divergent economic prospects: some enjoy strong domestic demand or benefit from targeted foreign investments, while others struggle with easing commodity demand growth, high USD debt burdens, or geopolitical risks. Higher for longer interest rates and a strong US dollar amplify debt-servicing costs for many developing economies, especially as global monetary easing turns to tightening, with the Federal Reserve in the lead.

Under Trump's renewed 'America First' agenda, some emerging economies will likely benefit from 'China-plus-one' strategies. However, only shifting value chains for the final stage assembly cannot wholly offset the protectionist headwinds. Backlash against globalisation is set to be detrimental to longer term growth across emerging markets, undermining productivity gains from trade that have been crucial to their development. Furthermore, the demographic advantages that once bolstered growth are diminishing in several regions.

Backlash against globalisation is set to be detrimental to longer term growth across emerging markets, undermining productivity gains from trade that have been crucial to their development.

Going forward, growth will likely be uneven across regions. Latin America remains vulnerable to commodity price volatility and rising borrowing costs. Brazil's strong agricultural exports may be undercut by renewed US protectionism, while Chile's copper sector faces lower Chinese demand growth. As Trump exited the Paris Agreement again, we expect more speed bumps ahead for global green energy transition investment, and related commodities demand. President Javier Milei is confronting runaway inflation in Argentina with growth rebounding, but his policies raise concerns over abrupt shifts and uncertainty. Mexico could see headwinds from 25% tariffs on its trade with the US.

GDP forecasts – percentage change from previous year

	PPP weight	2025	2026	2027	2028
Emerging economies	58.7	4.1	4.1	4.2	4.2
China (Actual)	18.4	4.3	3.9	3.5	3.6
India (FY)	7.6	6.5	6.5	6.5	6.0
Russia	3.5	2.0	1.5	2.0	2.0
Brazil	2.4	2.0	2.0	2.0	2.5
MENA and Central Asia	7.4	3.0	3.5	4.0	4.0
Asia ex. China & India	6.9	5.0	5.5	5.5	5.5
Latin America ex. Brazil	5.0	2.5	3.0	3.0	3.0
Emerging Europe ex. Russia	4.3	2.5	2.5	2.5	2.5
Subsaharan Africa	3.2	4.0	4.0	4.5	4.5

Source: LSEG Datastream, DNB Markets
Note: PPP-weight = purchasing power parity weighted share of global GDP in 2024, FY = fiscal year

Kelly K. Chen
kelly.ke-shu.chen@dnb.no
+47 91 73 40 10

Emerging Europe growth is set to remain low as the war in Ukraine drags on. Russia's war economy, which has remained surprisingly resilient, could face mounting headwinds. Whether and what kind of 'peace deal' or ceasefire Trump may achieve remains a big uncertainty, and it is difficult to pinpoint when reconstruction would begin. Meanwhile Turkey faces significant rollover needs on external debt; with a stronger dollar putting pressure on refinancing costs and its currency stability.

A bright spot is the Asian economies, which will see gains from supply chain realignments.

Meanwhile the Middle Eastern oil exporters will see constrained growth from extended voluntary oil production cuts. Many African economies contend with limited fiscal space, subdued investment, and continue to suffer climate shocks that worsen food insecurity and hamper agricultural output. It seems that a bright spot is the Asian economies, which will likely see gains from supply chain realignments. India continues to lead growth in the region with resilient, above-average GDP growth.

India

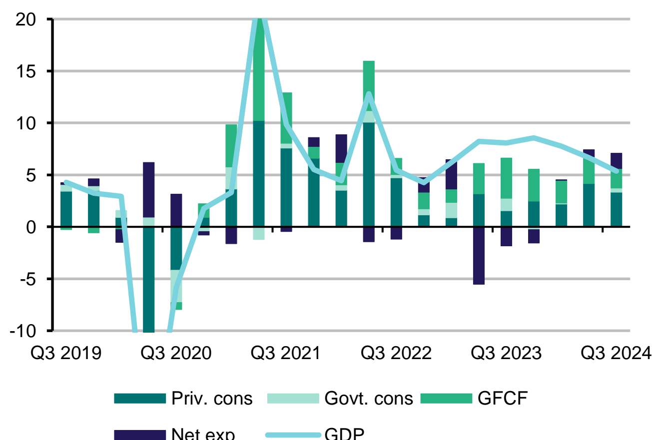
A bright spot for growth, despite recent slowdown

We project India's GDP growth to remain at 6.5% YOY for fiscal years 2025-2027, before edging down to 6.0% YOY in 2028.

India's latest GDP growth at 5.4% YOY for Q3 (July-September 2024) surprised markets and came in well below the Reserve Bank of India's (RBI) forecast of 7% YOY. Some slowdown in growth was anticipated, given the sizable stock builds that lifted growth above 8% YoY in 2023. However, sluggish private investment and reduced government spending also contributed to the latest growth deceleration. While household consumption growth has recovered to pre-pandemic averages, we do not expect it to accelerate further. We project GDP growth to remain at 6.5% YOY for fiscal years 2025-2027, before edging down to 6.0% YOY in 2028.

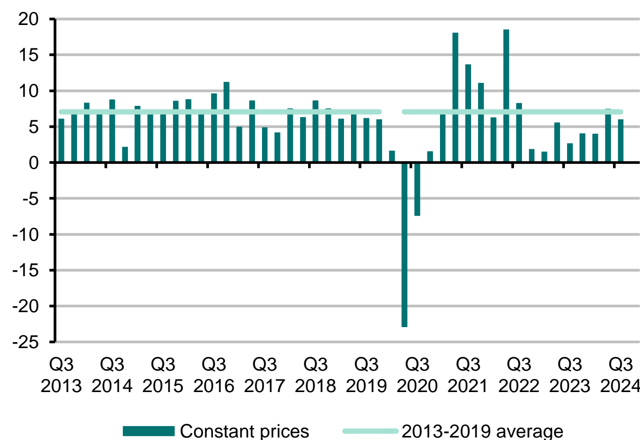
Before the pandemic, household consumption expanded by about 7% annually, double the lows witnessed in much of 2024—when high food inflation and erratic monsoons undermined rural spending. While consumption has rebounded, the outlook remains vulnerable to weather-related supply shocks, given that food still constitutes half of India's consumer price basket. Elevated interest rates, in turn, could weigh on household borrowing and dampen spending if inflation picks up again. Furthermore, inflation has remained the upper end of the RBI's inflation band, meaning the outlook for additional monetary easing in 2025 will be tempered.

India: GDP growth by %-point contribution (% YOY)



Source: LSEG Datastream, DNB Markets (Note: axis breaks Q2 2020 and Q2 2021)

India: Consumption growth with pre-pandemic avg (% YOY)



Source: LSEG Datastream, DNB Markets

Waning private investments to be offset by rebound in government spending

Private investment growth has yet to gain meaningful traction.

Despite government incentives linking corporate subsidies to job creation and capital spending, private investment growth has yet to gain meaningful traction. Firms still seem inundated with red tape and bureaucratic inefficiencies. Critics argue that India's bankruptcy code, while intended to reduce bad loans, may be too stringent and that it is currently deterring bankers from lending to riskier ventures. Furthermore, starting or closing a business can still be costly

due to stringent labour laws, making it harder for industries to scale up or pivot quickly. While reforms loosening these rules might improve labour misallocations, it could also result in initial job losses. Higher tariffs under Modi have especially hurt exporters, who face stiffer input costs than regional competitors part of free trade agreements like the Regional Comprehensive Economic Partnership (RCEP). Thus, short-term softness in private credit growth will likely moderate the pace of private sector investments growth in 2025.

Short-term softness in private credit growth will likely moderate the pace of private sector investments growth in 2025…

On the other hand, government spending has been subdued, but this is attributable to temporary monsoon related disruptions in 2024. The fiscal space created by underspending, may allow the government to ramp up infrastructure investments going forward, potentially boosting employment and productivity. By "crowding in" private investment through improved logistics, authorities could provide an additional boost to growth.

… will be offset by increased government investments, after a period of underspending

Compelling long-term potential, but with some hurdles that need clearing

India's demographic profile gives it a strong foundation to become a leading destination for foreign direct investment (FDI), particularly as multinational companies look to diversify away from China. The country's low urbanization rate—just 36%, comparable to where China stood around 2000—and a youthful workforce point to significant room for productivity gains. If India can successfully reallocate labour from agriculture (where 43% of the workforce remains) and address cultural and societal barriers to lift labour-force participation, it could replicate the large-scale gains that fuelled China's decades-long boom. Heightened geopolitical tensions between the US and China also position India as an appealing 'China-plus-one' destination for foreign direct investment (FDI).

India seems an appealing 'China-plus-one' destination for foreign direct investment (FDI)…

However, on-the-ground realities temper this optimistic picture. Despite growing flows of FDI overall, greenfield investment in India has not risen meaningfully as a share of global FDI – even as flows to China collapsed. One factor is India's restrictions on inward Chinese investment, stemming from border tensions that have chilled bilateral relations. As a result, Chinese multinationals seeking to hedge against looming US trade policies have opted for other Asian locations—such as Indonesia, Vietnam, and Malaysia—where the Belt and Road Initiative has already laid infrastructure foundations for power grids, railways and ports over the past decade. This suggests that India failed to capitalize on the 2021–2024 wave of Chinese firms' FDI expanding quickly across the "Global South"—and has also struggled to secure significant inflows from other multinationals.

…however, on-the-ground realities temper this optimistic picture.

Currently, manufacturing's contribution to Indian GDP has remained at around 17%, despite a long-stated goal since 2014 to move it to around 25% by 2024. Despite this 'Make in India 2014' policy, it seems India's economic shift bypassed low-skill, job-rich manufacturing, moving directly from agrarian roots to a services-led economy. Only one-third of India's tertiary-age population is enrolled in higher education, behind Vietnam's 42%, yet India does not have an edge over Vietnam in terms labour costs. This skill gap—along with shortcomings in infrastructure—limits India's ability to compete against other Asian economies in absorbing large-scale manufacturing investment in the near term.

A wide skill gap and lacking infrastructure—limits India's ability to compete against other Asian economies in absorbing large-scale manufacturing investment in the near term.

Notwithstanding challenges in manufacturing, India's services sector—particularly IT services and high-end outsourcing—continues to perform strongly. Global demand for digital transformation has boosted exports in IT and business process management. India is also a leading destination for Global Capability Centres, where multinational firms set up operations for research, engineering, and consulting. This surge has propelled services exports and created significant employment in urban hubs. Thus, path to sustained 6.5% annual growth remains well within reach. Its vast internal market, favourable demographics, and ongoing policy reforms provide a compelling long-term growth trajectory for India.

However, India's services sector—particularly IT services and high-end outsourcing—continues to perform strongly…

…thus, path to sustained 6.5% annual growth remains well within reach.

DNB MARKETS

NORWAY

Economic rebound and sticky inflation curb number of rate cuts

The Norwegian economy is set to rebound in 2025, supported by rising investments, robust private consumption, and continued strength in the labour and housing markets. As inflation remains well above target, we expect Norges Bank to cut three times in 2025, leaving the policy rate at 3.75%.

Business cycle and labour market

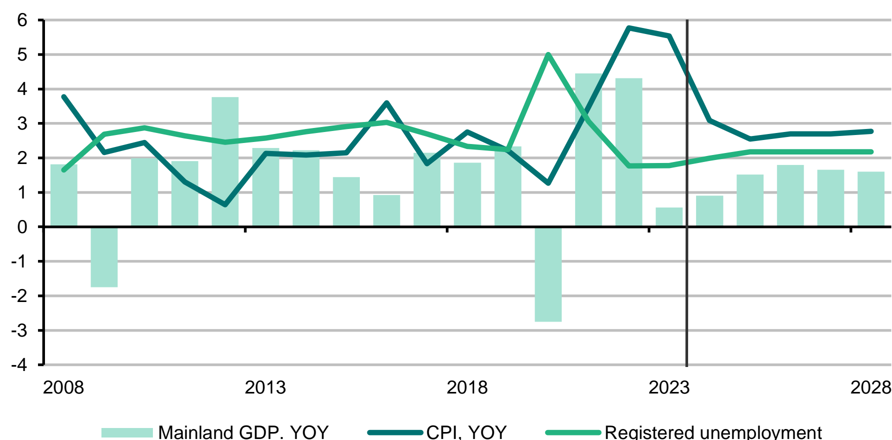
Growth to pick up and stabilise around trend

The Norwegian mainland economy grew by an estimated 0.9% in 2024. While we had expected a marked upturn in H2 2024, our estimates suggest that mainland GDP increased by only 0.1% QOQ in Q4 2024, with both household consumption and gross fixed capital formation contributing negatively.

We remain firm in our view that growth will pick up in 2025, driven by investments and private consumption. The outlook remains positive for real wages to continue rising in the coming years, which, combined with policy rate cuts, will support consumption growth. Fiscal spending is expected to contribute positively to public consumption and investments, while mainland businesses will benefit from the general positive trend. We believe housing investments will bottom out in H1 2025 and start to rise in H2 2025. Petroleum investments are expected to peak in 2025 before gradually declining. The increase in domestic demand will likely result in slightly weaker contributions from net exports in the coming years.

Overall, our forecasts have not changed significantly since August, as we still expect growth to improve in the coming years. Mainland GDP is projected to grow by 1.5% in 2025 and 1.8% in 2026, before stabilizing around its potential growth rate of 1.6-1.7% in 2027 and 2028.

Norway: Macroeconomic forecasts. %



Source: LSEG Datastream, Statistics Norway, NAV, DNB Markets

Oddmund Berg
oddmund.berg@dnb.no
+47 41 63 81 70

Kyrre Aamdal
kyrre.aamdal@dnb.no
+47 90 66 11 12

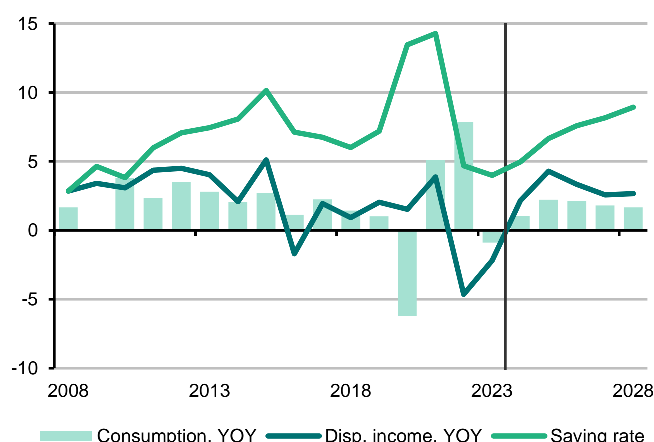
Private consumption projected to rise with increased real wages

In 2024, private consumption grew by an estimated 1.0%. The gradual rebound observed in 2024 was largely in line with our expectations, and we expect consumption to grow by 2.2% in 2025. Our forecast for real disposable income growth remains largely unchanged, and consequently, our expectations for consumption growth are also broadly the same.

We expect productivity growth to be around 0.8%

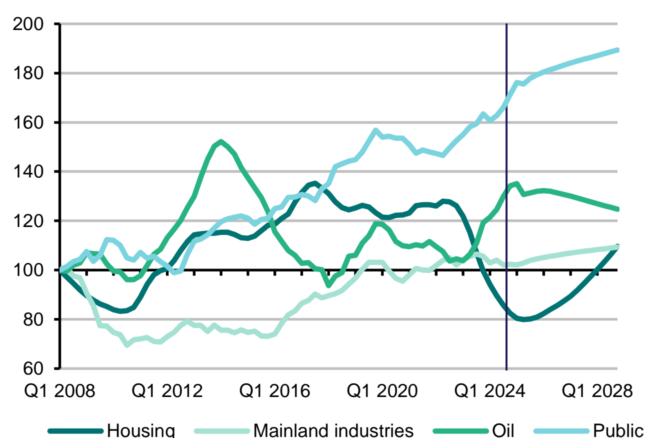
In 2027 and 2028, we anticipate wage growth to align with underlying productivity growth, which we estimate at approximately 0.8%. With real wage growth slowing and the policy rate remaining relatively high, we expect consumption growth to moderate to 1.7-1.8% in 2027 and 2028. Based on our estimates for wages, interest rates, and inflation, this implies a saving rate that will rise from 5.0% in 2024 to 8.9% in 2028. This is slightly higher than the pre-pandemic average of 7.3% for 2011-2019, which we believe is consistent with demographic trends and a higher real interest rate.

Norway: Households. %



Source: LSEG Datastream, Statistics Norway, DNB Markets

Norway: Investments, 3Q average. Index, Q12008=100



Source: LSEG Datastream, Statistics Norway, DNB Markets

Positive contributions from investments

Investments are notoriously difficult to forecast, and the data are often subject to significant revisions. Since Q1 2023, mainland investments have declined by almost 7% through Q3 2024; however, there are notable differences across sectors. Since Q1 2022, housing and services investments have decreased by 38% and 13%, respectively. Conversely, public investments and manufacturing, mining, and quarrying investments have increased by 21% and 18%.

We expect a solid rise in public investment in 2025

We anticipate that the strong trend in public investment will continue in the coming years, with growth of 6.4% projected for 2025 and 2.4% for 2026. This expectation is based on the assumption that the fiscal rule will continue to allow increased spending, supported by petroleum sector revenues and positive returns on the Government Pension Fund Global (GPFG). As 2025 is an election year, we find it unlikely that austerity measures will be implemented. Additionally, plans to improve defence facilities are expected to provide a further boost to public investments in 2025 and 2026. For 2027 and 2028, we expect public investment growth to align more closely with the overall economy, albeit from a high level.

Further rise in housing prices will contribute to a rebound for housing investments

We believe housing investments will bottom out in H1 2025 and begin to recover at a moderate pace in H2 2025 and beyond. The sharp decline in activity has led to an increase in bankruptcies, which supports our view that housing investments will only rise gradually over our forecast horizon. A higher policy rate forecast also underpins this gradual rebound. Starting from a low base in 2025, we project a decline of approximately 4%, followed by growth of around 7% in 2026 and 11-12% in 2027 and 2028.

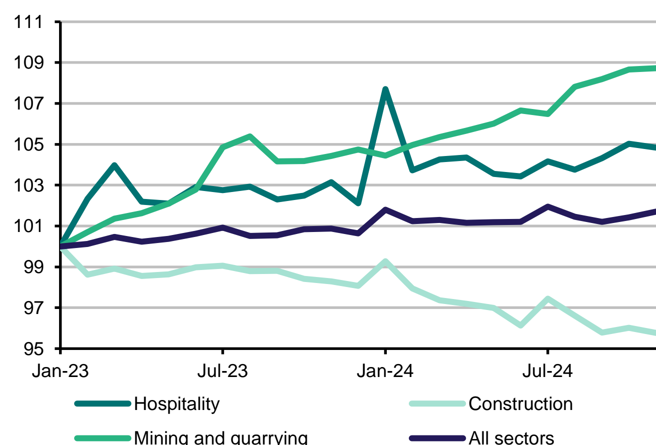
Rising public and housing investments are expected to be partly offset by lower petroleum investments

Petroleum investments have increased significantly over the past two years, driven by temporary changes to the tax system during the pandemic. To benefit from these changes, investment plans needed approval before 1 January 2023. These approved plans are now being executed, which explains the continued high level of petroleum investments. Based on Statistics Norway's investment survey, we expect petroleum investments to rise moderately in 2025 and then decline slightly in subsequent years.

Labour market resilience amid modest growth

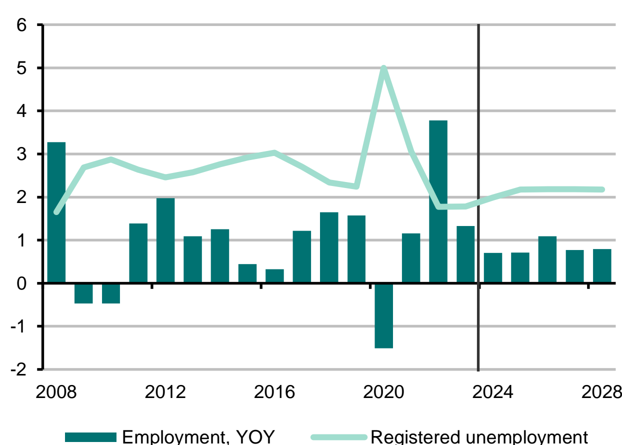
The labour market has performed relatively strongly, given that economic growth has been weak over the past two years. However, significant underlying differences in employment and unemployment persist across sectors. High activity in the petroleum sector has driven up employment in the mining and quarrying sector. Public sector employment has also increased, while the weak NOK has supported positive developments in the hospitality sector. In contrast, the retail sector has seen relatively flat employment trends, and employment in the construction sector has continued its downward trajectory.

Norway: Number of jobs. Index. Jan 2023 = 100



Source: LSEG Datastream, Statistics Norway, DNB Markets

Norway: Labour market. %



Source: LSEG Datastream, NAV, DNB Markets

The registered unemployment rate rose to 2.1% by the end of 2024, bringing the average unemployment rate for the year to 2.0%, in line with our forecast. A substantial share of this increase in unemployment is attributable to the inflow of immigrants, particularly a significant number of Ukrainian workers entering the labour force. Finding relevant jobs can be challenging for these workers, making this contribute to a rise in the unemployment rate.

Outlook for stable unemployment most of the forecasting period

We expect this trend to continue lifting the unemployment rate in 2025, forecasting an average rate of 2.2%. Employment is projected to grow by 0.7% in 2025, 1.1% in 2026, and then moderate to 0.8% in both 2027 and 2028. Our estimates suggest that increased employment growth will offset the expansion of the labour force, resulting in a stable unemployment rate of 2.2% from 2026 to 2028.

Housing market set for continued expansion

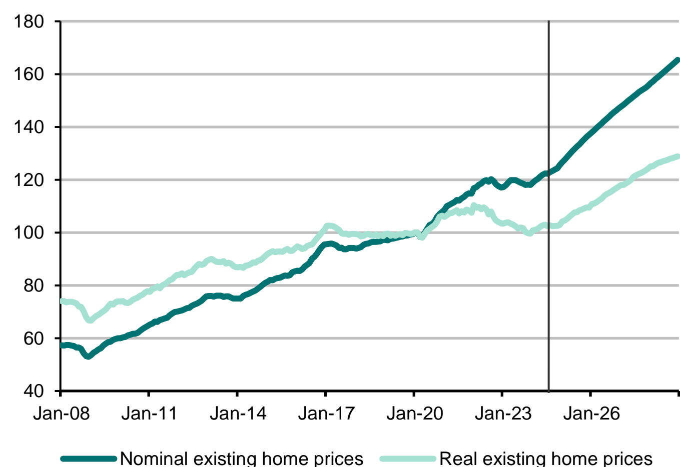
Rising demand for housing and modest increases in supply set the case for a solid increase in house prices over the next years

The housing market performed strongly in 2024, with house prices on average c3.0% higher than in 2023. However, in December, house prices rose 6.4% YOY. Growth differs across the country, with Bergen currently experiencing the strongest growth, at 13.1% YOY, while Trondheim was at 2.8% YOY in December. Turnover has been exceptionally high in H2 2024, with the number of sold units averaging 16.8% YOY. In December, turnover was 23.3% YOY, supporting the high price growth of 1.0% MOM s.a.

There are several reasons to expect that house price growth will be high in the coming years. First, we believe that the current momentum reflects high demand and a robust household

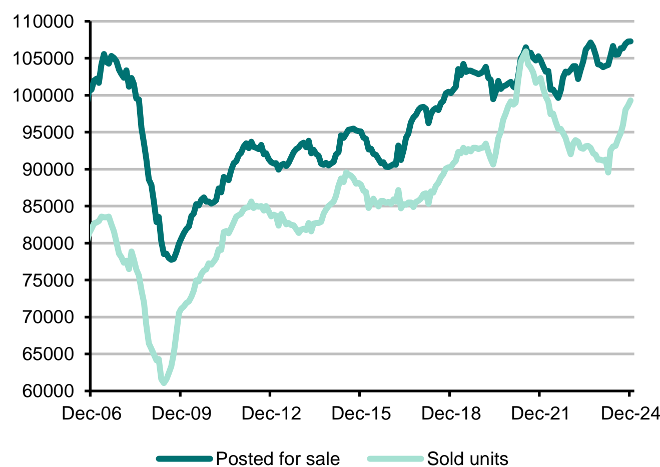
sector with a strong desire to own and invest in homes. With the tax system rewarding home ownership, this will not change in the coming years, in our view. The strong sentiment is further supported by a strong labour market. Second, the population is set to increase, driven by immigration. Despite low birth rates, immigrants who receive housing support from the government, will support demand. Third, real disposable income is set to increase in the coming years, as real wage growth will be positive, and the policy rate cut. Fourth, supply is low. Despite an outlook for increasing demand, slow regulation and high costs of building has resulted in a large drop in housing starts, which ultimately results in a shortage of new homes posted for sales. This imbalance will support house price growth in the coming years. Last, but not least, lending regulations are less tight, supporting higher credit growth. Taking place from 31 December 2024, maximum loan-to-value have been increased from 85% to 90%. Furthermore, stress testing of fixed rate mortgages will be done at the end of the fixing period, with banks allowed to use an estimate of wage growth. These changes to regulation increase banks' ability to provide credit. As banks are only allowed to exceed regulations on 10% (8% for Oslo) of loans each quarter, having less tight restrictions will free up capital that banks could provide for other customers exceeding other requirements.

Norway: Existing home prices. Index, Jan 2020 = 100



Source: LSEG Datastream, Eiendom Norge, DNB Markets

Norway: Homes posted for sale and sold, 12m sum.



Source: LSEG Datastream, Eiendom Norge, DNB Markets

While these factors were incorporated in our forecast update from November, the current strong momentum in combination with our expectation that new lending regulations will affect house price growth from January 2025, result in an upward revision of our forecast. We now forecast house price growth of 8.0% in 2025 and 2026, 6.5% in 2027 and 2028.

Prices and wages

Prospects for further increases in real wages

Solid growth in real wages in 2024 and 2025

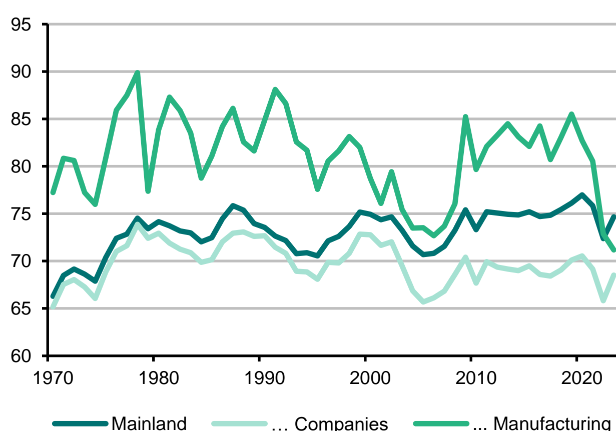
Consumer prices increased by 3.1% last year, while wages rose by an estimated 5.3%. Consequently, real wages grew by approximately 2.1% in 2024, following a decline of 0.3% the previous year. For 2025, we forecast a further increase in real wages of 1.8%, with headline CPI projected to rise by 2.7% and wages expected to grow by 4.4%. Beyond 2025, we anticipate a gradual decline in real wage growth, reaching 0.7% by 2028.

Our estimate of 4.4% for nominal wage growth in 2025 exceeds projections from the social partners surveyed by Norges Bank. They estimate wage growth at 4.0% in the expectations survey and 4.3% in the regional network survey. Under the Norwegian wage settlement framework, the trade-exposed manufacturing sector negotiates first and sets a benchmark for other industries. These agreements typically span two years, with an option to renegotiate

wages after one year. The year 2025 is an intermediate year, meaning wage negotiations will mainly occur between LO and NHO, the leading confederations for labour unions and employer associations, respectively.

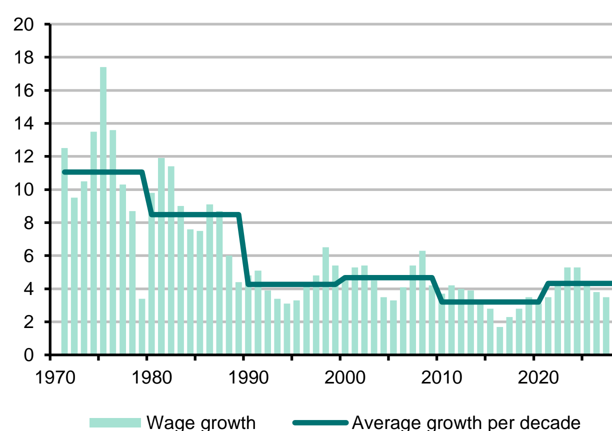
During negotiations, LO is expected to emphasise the companies' ability to increase wages, enhance purchasing power, and consider the broader societal impact. Rising profitability will likely strengthen wage demands, while NHO will advocate for wage moderation to control costs and maintain competitiveness. In recent years, the manufacturing sector has benefited from higher global prices and a weaker NOK, keeping wage costs as a share of value added at a low level despite recent wage increases. Additionally, low unemployment is expected to support the employees' bargaining power, while expansionary fiscal policies could further fuel wage pressures in other industries beyond the manufacturing sector.

Norway: Wage share. %



Source: Statistics Norway, DNB Markets

Norway: Annual wage growth. % YOY. Actual and forecasts



Source: Statistics Norway, DNB Markets

The upcoming general election in September may also influence negotiations. The incumbent government led by the Labour Party, faces low approval ratings. Given LO's close ties to the Labour Party, there is a risk that it will push harder for wage increases to support the government's narrative of economic success.

In the coming years, we anticipate wage growth to gradually align with productivity growth. A more stable NOK is expected to bring Norwegian wage growth closer to that of its trading partners, although this nominal adjustment is likely to take time.

Inflation to remain above the target

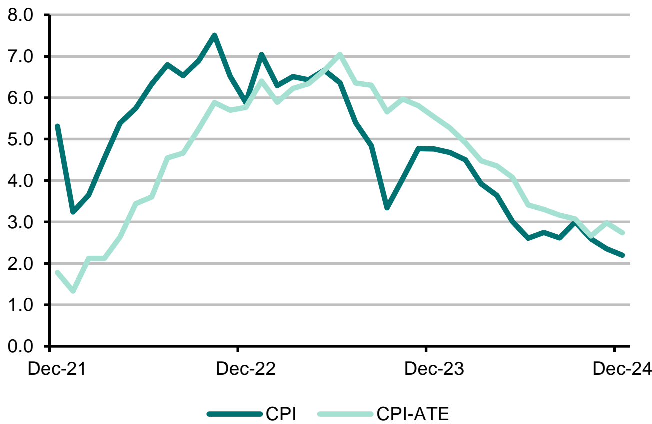
Core inflation, measured by the annual change in the consumer price index excluding taxes and energy goods (CPI-JAE), was 3.7% in 2024, down from 6.2% in 2023. The decline was primarily due to base effects, as monthly price increases normalised. Monthly inflation rates in 2024 were consistent with the 10-year median monthly increases, leading to a year-on-year decline from 5.5% in December 2023 to 2.7% in December 2024. The most significant decline occurred in the first half of the year.

A key factor behind the decrease in core inflation was lower growth in imported goods prices, which reflected some reversal of the price surges experienced after the pandemic. However, rents increased at twice the normal rate in 2024, tempering the overall decline. Domestic service prices fell more than usual, primarily due to the government cutting maximum kindergarten fees in August. Without this adjustment, core inflation would have been 3.0% year-on-year in December 2024 and 3.8% for the year.

We forecast core prices to increase by 2.7% in 2025. The year-on-year rate for imported goods prices is expected to rise slightly due to international price trends and low monthly price increases in 2024. Meanwhile, domestic cost pressures are likely to persist, with rental growth projected at 4.1% in 2025, down from 4.5% in 2024. Excluding rent, domestic price growth is expected to slow to 3.5% in 2025 from 4.3% in 2024.

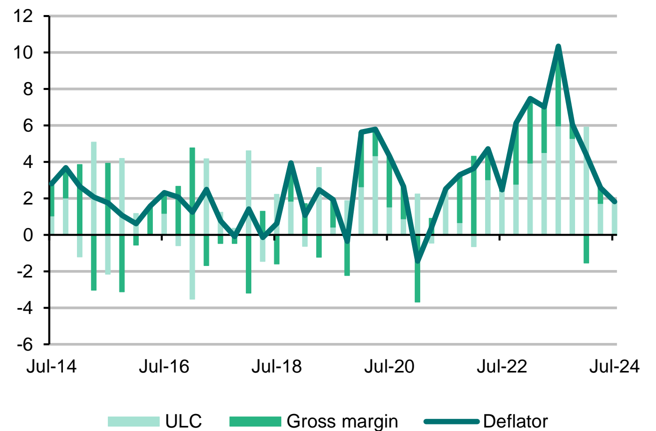
Most of the decline in inflation is behind us, and we forecast sticky inflation going forward

Norway: Consumer prices. % YOY



Source: Statistics Norway, DNB Markets

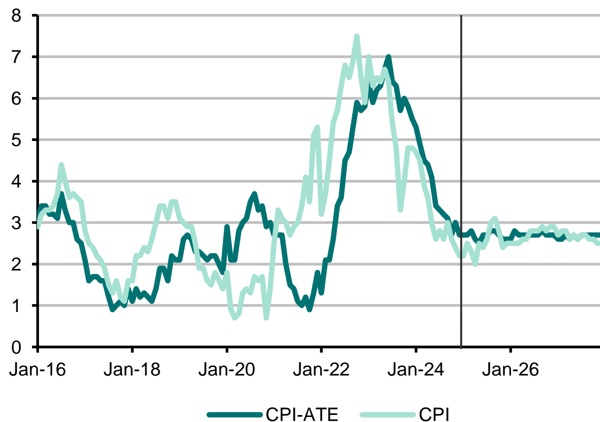
Norway: Gross product deflator. Contributions from ULC and gross margins. Mainland companies x power prod.



Source: Statistics Norway, DNB Markets

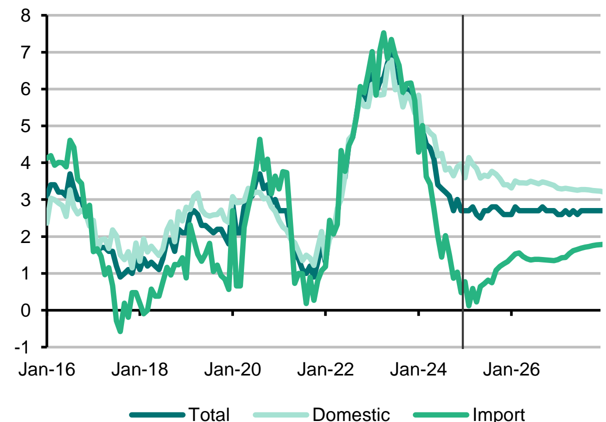
We anticipate relatively stable core inflation of around 2.7% until 2028, with moderately declining rent inflation offset by higher imported inflation. Energy prices, which contributed significantly to headline inflation in 2021 and 2022, declined in 2023 and 2024. We expect further declines in 2025, followed by an increase in real terms from 2026 onwards. As a result, headline inflation is projected to align closely with core inflation over the forecast period.

Norway: Consumer prices. % YOY. Actual and forecasts



Source: Statistics Norway, DNB Markets

Norway: Core inflation. % YOY. Actual and forecasts



Source: Statistics Norway, DNB Markets

Budget policy

The government initially proposed a slightly expansionary budget for 2025; however, an agreement with SV resulted in a significantly more expansionary stance. The National Budget for 2025, presented on 7 October 2024, estimated a structural oil-corrected deficit of NOK 460.1bn, equivalent to 2.5% of the Government Pension Fund Global (Oil Fund). This implied

Even though spending of petroleum may be well below the fiscal rule level, fiscal policy is set to be expansionary for 2025

a fiscal impulse of 0.5 percentage points, with official estimates suggesting a 0.2 percentage points boost to mainland GDP.

Subsequent budget amendments, including increased transfers to local governments and additional measures agreed with SV, likely raised the structural non-oil deficit by NOK 11.9bn, increasing the fiscal indicator to 0.7 percentage points (excluding Ukraine-related expenditures, which have limited fiscal impulse on the Norwegian economy). Including Ukraine-related transfers, the indicator will likely reach 1.0 percentage points.

The government estimated that the oil fund would mount to NOK18,500bn by the beginning of 2025. Currently the estimated value is NOK20,050bn. Despite the expansionary policy, the structural non-oil deficit remains well below the 3% fiscal rule threshold.

The fiscal rule says that the structural non-oil deficit ("spending of petroleum revenues" or "oil money") over time should be 3% of the oil fund, i.e. in line with the expected real return from the fund. In the latest budget proposal for 2025 the percentage used of the oil fund was calculated to 2.5%, well within the threshold.

Over time spending of petroleum revenues have solely raised public expenditure while the tax level has been flat

Since the rule was introduced, the spending has increased from NOK39.1bn in 2001 (measured in 2025-prices) to the budget proposal of NOK460.1bn for 2025. The budgetary expansion since 2001 has predominantly increased public expenditure without reducing taxation levels. A public debate over whether the increased public spending has adversely affected underlying growth in the mainland economy was ignited in early 2025. However, we find it unlikely that the budget policy will undergo major fundamental changes in the next years.

There is little evidence that the colour of the government is important for the over-all fiscal policy. Regardless of the upcoming election outcome, we expect fiscal policy to remain slightly expansionary over the next few years, reinforcing a relatively high interest rate path.

Monetary policy

We forecast three rate cuts in 2025 to 3.75% and unchanged policy rate thereafter

Norges Bank raised the policy rate to 4.50% in December 2023 and has kept it unchanged throughout 2024 and at the January meeting in 2025. In December 2024 the central bank guided for a rate cut in March 2025 and repeated this guiding in January.

After the December meeting Norges Bank stated that it is "… soon appropriate to begin easing monetary policy" and pointed explicitly in the press release to the March meeting as the starting point of a "gradual reduction in the policy rate in the years ahead". In her opening statement at the press conference, Governor Wolden Bache chose to be explicit about the interpretation of the published interest path, saying that it is consistent with "… a reduction in the policy rate to 4.25 percent in March, with a further decline to 3.75 percent by the end of 2025". The rate path had a terminal rate of 2.91% in Q4 2027. Wolden Bache stated that "… we must be prepared for a higher interest rate level than we had been accustomed to over the past decade." The message is well in line with our forecast of a total of three 25bp cuts in 2025, but we now forecast unchanged policy rate thereafter.

The operative target for monetary policy is an annual increase in consumer prices that is close to 2% over time. The regulation states that "Inflation management must be forward-looking and flexible so that it can contribute to high and stable production and employment as well as counteract the build-up of financial imbalances."

Compared with the central banks in the US, the UK, and the eurozone, Norges Bank has raised interest rates somewhat less and at a slightly slower pace during the years with monetary policy tightening. An important reason for this is Norwegian households' more direct exposure to changes in interest rates. With high debt level and high share of floating rate mortgages. Trends in private consumption and the housing markets indicate that households have so far handled the rise in interest rates reasonably well. The weakening of the NOK and pickup in wage growth, coupled with expansionary fiscal policy have so far justified maintaining rates when other central banks have begun easing.

The model for wage settlements in Norway dampens the possibilities of price and salary spirals. However, this model does not prevent a sustained weakening of the krone from affecting price and wage growth. In addition to directly affecting import prices, a weaker krone would help to strengthen the profitability of export-oriented industrial companies. This increased profitability would influence their wage negotiations, which sets the benchmark for Norwegian wage settlements. Thus, over time, a weaker krone can lead to higher wage growth, which would contribute to price growth.

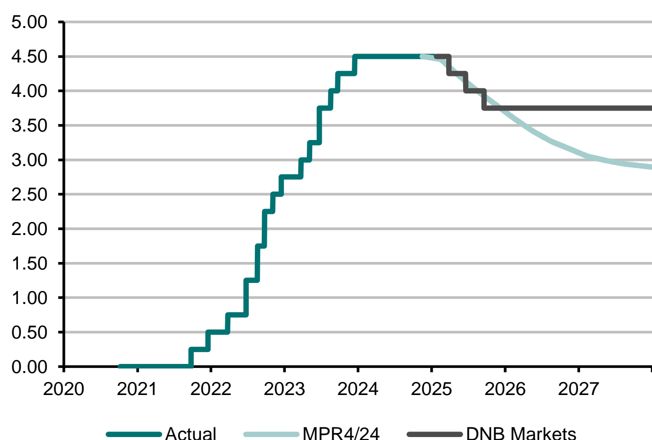
Growth in labour costs may be an impediment for further decline in inflation

Over the past year the import weighted NOK (I-44) has been relatively stable, and the growth in prices for imported goods has fallen markedly. On the other hand, the wage growth has averaged around 5.2% each of the past two years. Notably, this wage growth has not been offset by a corresponding rise in productivity. Hence there is an underlying growth in costs that may prevent inflation to return to the target. In addition, we expect that higher price increases abroad will lift prices on imports.

Despite inflation above target Norges Bank will prioritise stable economic growth and unemployment

We anticipate that after an initial rate reduction to 3.75%, Norges Bank will hold rates steady. Inflation is expected to stabilise around 2.7%, supported by stable unemployment and real wage growth in line with productivity. While inflation exceeding the target could warrant further tightening, we expect that Norges Bank will prioritise employment stability over reaching the inflation target precisely.

Norway: Key policy rate, %



Source: Norges Bank, DNB Markets

Norway: Money market premiums, 3m, basis points

Source: Bloomberg, DNB Markets

Over the past year, the 3-month Nibor has remained relatively stable around 4.70%. The spread between the 3-month Nibor and the expected policy rate over the corresponding period (the money market premium) has been low and stable at around 20bp for several months, declining to approximately 15bp at the beginning of 2025. This stability contrasts sharply with the high levels and volatility experienced in 2022.

Outlook for high structural liquidity in the Norwegian money market and accompanying low and stable money market premiums.

The primary driver of this development is the change in structural liquidity in the NOK interbank market. In 2024, liquidity conditions were more ample, with only a few days falling below the NOK35bn target, whereas previous years experienced prolonged periods of tight liquidity. Several structural changes are set to take place in 2025. Notably, the number of petroleum tax instalments will increase, reducing volatility and raising the "low-point" in structural liquidity caused by fluctuations in petroleum prices. Additionally, a new rule addressing discrepancies between projected and realised fiscal deficits will inject approximately NOK82bn of liquidity in 2025. Overall, with expectations of ample structural liquidity in 2025 and likely in 2026, and assuming that liquidity and risk premiums in USD markets remain low, we anticipate that the NOK money market premium will remain subdued. We forecast the premium to remain at 20 basis points, in line with Norges Bank’s projections. Consequently, with stable premiums, there will be a high pass-through from monetary policy to market interest rates.

DNB MARKETS

FX MARKETS

Fundamentals vs animal spirits

Markets have once again embraced US exceptionalism. While this could continue as the new US administration employs its new economic policies, we expect growth to converge across the Atlantic as the inflationary and growth-negative effects of tariffs emerge. This should support the EUR despite the USD remaining a high-yielding safe haven. For Scandis, short-term factors still seem to balance, while structural factors remain a headwind.

USD: US exceptionalism will eventually start to fade

While the USD benefitted temporarily as Fed reached the end of the hiking cycle late in 2023, we have seen a broad-based strengthening of the trade-weighted USD since the start of October last year, leaving the trade-weighted USD almost 8% stronger than at the start of last year.

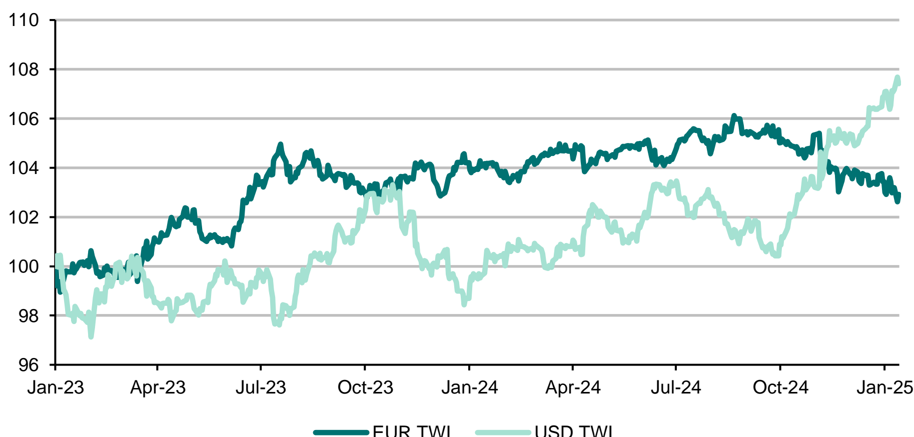
Tariffs and pro-growth policies from the incoming administration has benefitted the USD

The economic policies of the newly inaugurated president have been at the epicentre of this appreciation. Markets have embraced higher tariffs and pro-growth policies of lower taxes and deregulation as USD-positive, putting less emphasis on the possible inflationary and growth-negative effects of higher tariffs and a crack-down on immigration. Fuelled by this and the solid activity growth in the US economy, consensus have revised higher expectations for GDP-growth going forward. While we do expect to see the introduction of new policy measures in the US as a USD-positive factor, we expect to see US exceptionalism to fade later this year. Growth is set to slow through 2025 and 2026, and we expect to see inflationary effects starting to emerge in H2 2025.

Not obvious that Fed hikes are USD-positive, as growth is slowing

Fed is likely to address higher inflation with interest rate hikes, and we expect Fed to hike in December 2025 and March 2026, before the new Fed Governor takes seat.

EUR and USD: Trade-weighted currency, indexed



Source: Bloomberg, DNB Markets

Magne Østnor
+47 90 74 79 02

Given current market pricing for a terminal rate slightly below 4% this should lift both short- and long-term USD interest rates. Previous episodes have shown that the start of hiking cycles usually is USD-positive, but we expect less of an impact on the USD this time around. First, we are starting at a higher base, and do not expect interest rate to be lifted well into restrictive territory. Second, with growth already slowing, higher rates could reignite expectations for a more pronounced downturn in the US economy. And third, higher interest rates could have a negative impact on risk assets.

Volatility likely to rise under Trump, but not necessarily create a trend

With the new US administration, we are looking at years of higher political uncertainty, which is likely to take different forms. Geopolitical risks are likely to increase, with Trump targeting trading partners for unfair trade policies. This should benefit the USD, given the safe-haven allure of the USD. Based on previous experiences, we should also expect to see volatility increase. While this is likely to have a short-term market impact, we are more sceptical that it will create a trend in the USD. Given campaign promises to cut taxes, debt sustainability has been a concern among some. For this to become a concern for the broader market, we think this warrants significantly higher USD rates. However, such a carry-advantage combined with the safe-haven allure of the USD, is likely to limit any negative impact on the USD.

USD-positive sentiment to remain for some time, before US exceptionalism is likely to fade as growth slows and Fed starts hiking

Taken together, we expect to see the USD-positive sentiment to continue over the next months as activity growth and the labour market remains solid and the new administration employs new policies. One concern, possibly limiting the ability for the USD to rise substantially arises from the current stretched positioning, where speculative accounts have reached the most extreme against the EUR in 5 years. Further out, we expect US exceptionalism to fade as growth is likely to slow and the inflationary effects of tariffs and restrictions on immigration become visible. We therefore expect to see EURUSD close to 1.00 in 3 months and 1.06 in 12 months.

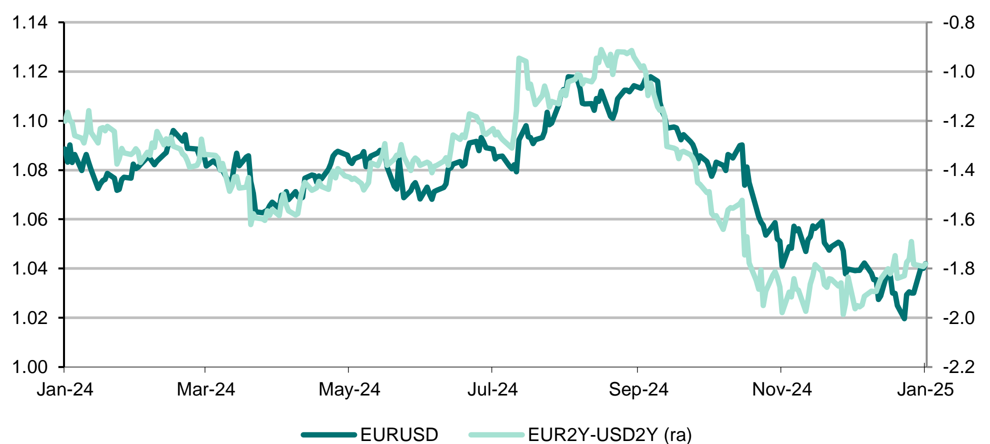
EUR: From doom to glimmers of gloom

For the most part of last year, the trade-weighted EUR traded in a narrow range, but has weakened gradually since the start of October amid a broad-based strengthening of the USD and is now 1-2% weaker than at the start of last year.

We see a shift in EUR-sentiment as growth picks up closer to trend

Weak German activity growth, soft sentiment indices and expectations for negative effects on growth from the incoming US administration's economic policies have weighed on the EUR in recent months, and consensus' expectations for growth this year have been revised lower through H2 2024. However, contrary to markets seeing the glass half-empty, we have a different view. Not only has growth in the eurozone consistently outpaced the signals from sentiment indicators lately, but we expect the solid development in disposable income to lift consumption now that interest rates are coming down and for 2025 to be a turning point for investments, as governments address defence capabilities, the region's energy balance, competitiveness and productivity growth. As such, we expect activity growth to pick up closer to trend through 2025, proving the current weak sentiment wrong and be a positive factor for the EUR.

EURUSD and interest rate differential



Source: Bloomberg, DNB Markets

While we expect the Fed to be done cutting rates, we expect to see three more cuts from the ECB to a terminal rate of 2.25%. If we are right, this implies a larger repricing of USD-rates than EUR-rates, as markets currently price close to 40bps of cuts by the Fed and close to 100bp by the ECB. However, given that we expect growth to slow in the US and to pick up in the eurozone, this central bank divergence could fuel confidence in a more positive growth-outlook for the eurozone and be a EUR-positive factor.

Geopolitical risks will remain a concern, but less intense than it is now

For the eurozone, political risks take a slightly different form than in the US. Rising geopolitical risks will likely be seen as a EUR-negative factor by the market. On top of this, the political division in several European countries could have markets question the outlook for governments to take an active role in lifting investments and for much-needed policy reforms. While we do foresee a turning point in investments, this uncertainty is likely to prevail and could cap the positive effects on the EUR.

All in all, we see the current weak sentiment to continue to weigh on the EUR in the short term. Further out, however, diverging growth paths should enable sentiment to turn in favour of the EUR, and we expect EURUSD to trade close to 1.06 in 12 months.

NOK: Short-term neutral, structural headwinds remain

After seeing a bit of volatility as interest rate markets repriced the inflation outlook early last year, the market turmoil last summer left the import-weighted NOK (I-44) at significantly weaker level, at which it has traded sideways in H2 2024. Since the start of last year, the import-weighted NOK is more than 5% weaker.

Rising interest rate differentials have cushioned the NOK against geopolitical concerns, but risk sentiment is likely to remain a NOK-negative factor

The covariance between interest rates differentials and the NOK has been on and off lately. The NOK was closely linked to USD-rates early in 2024 as markets repriced the inflation outlook, despite interest rate differentials being more sideways. Since then, the NOK has seemingly failed to benefit from widening interest rate differentials. However, rather than conclude the interest rate differentials don’t matter, we see widening interest rate differentials as cushioning against the adverse effects from higher uncertainty arising from US economic policies. With inflation coming down from earlier peaks and central banks now calibrating monetary policy, we see the large interest rate cycles of the last year’s less likely going forward, giving less of a directional signal to FX markets. As for the NOK, the impact from NOK rates have been more event-driven, related to surprises in inflation data and from Norges Bank. While we expect this to continue to be the case, we see such surprises as less likely the coming year. Risk sentiment will likely remain a NOK negative factor, but we expect volatility as more of a short-term driver and for a more elevated level of uncertainty to keep the NOK on the backfoot.

During the first part of last year, the correlation between oil prices and the NOK looked to be changing, as the NOK failed to benefit from higher oil prices in Q1 and strengthened through Q2 as oil prices came lower. Since last summer, the more sideways development in oil prices have only partially coincided with the NOK. We see several reasons for this. First, gas makes out close to 50% of Norwegian petroleum export, and after a c20% drop in gas prices in Q1 last year, gas prices have edged steadily higher to current levels close to 80 dollar per barrel o.e., providing the NOK with support. Second, with the continued risk that OPEC will change from the current strategy defending price, to defending market share, has probably limited the correlation between the NOK and oil prices. And third, Norges Bank's daily NOK sales have been at a lower level than previous years, leaving less of a directional signal to markets. Going forward, we continue to see little directional signals from oil prices, expecting to see oil prices edge lower to 77 dollar per barrel in H2 2025. While the sustained fiscal budget deficit still leaves net petroleum-related transactions a NOK-positive, history has shown this to be insufficient to give the NOK any sustained support. We expect Norges Bank to stick with low NOK purchases this year, reducing the level further from March when the central bank takes into account dividends payable to the Ministry of Finance.

Few directional signals for the NOK from petroleum prices, Norges Bank's NOK transactions to remain uninteresting for now

We have for a long time believed the NOK to be relatively close to a long-term fair value, and in this regard, nothing much have changed. We still see a balanced economy, despite more than a decade of steady depreciation of the NOK. Unemployment is low and stable, and growth has on average been close to trend, both signs of internal balance. While Norway has been running a non-oil trade deficit in goods and services, this should be expected given the flow from the State Pension Fund Global and we see few signs indicating any external imbalance.

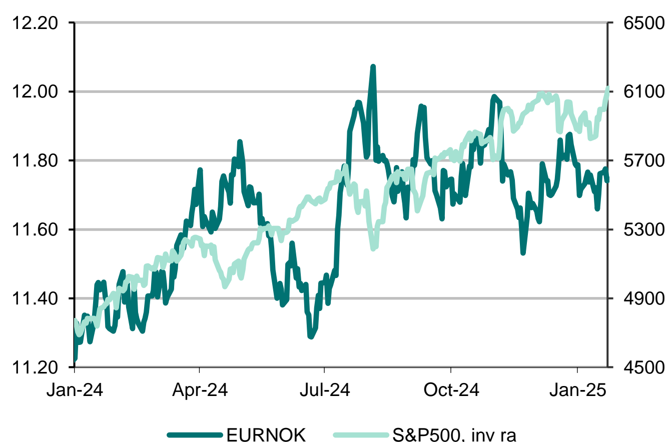
NOK is close to a long-term fair value

Rather, we see structural issues that could imply a continued gradual depreciation pressure on the NOK. The basic balance (the current account after adjusted for the surplus in the Government Pension Fund Global) and petroleum companies' retained currency surplus) has been slightly negative over several years, indicating an underlying demand for FX from the economy. We have in recent years seen a rise in households' and non-bank financials' net portfolio investments abroad. With growth in disposable income picking up, we expect to see household's savings ratio climb back to more normal levels, continuing to add depreciation pressure on the NOK.

Structural factors still point to a gradual depreciation of the NOK

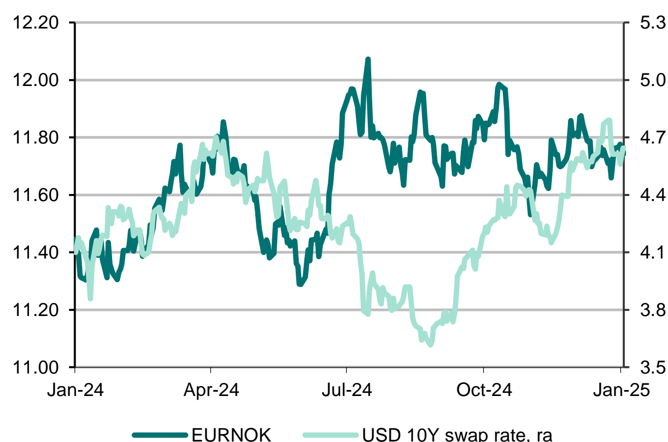
Seen together, we see the NOK continuing to trade more sideways in the short-term, and we stick to our long-held view that structural factors are likely to continue to weigh on the NOK and expect to see EURNOK close to 12.00 in 12 months.

EURNOK and S&P 500



Source: LSEG Datastream, DNB Markets

EURNOK and USD 10y swap rate

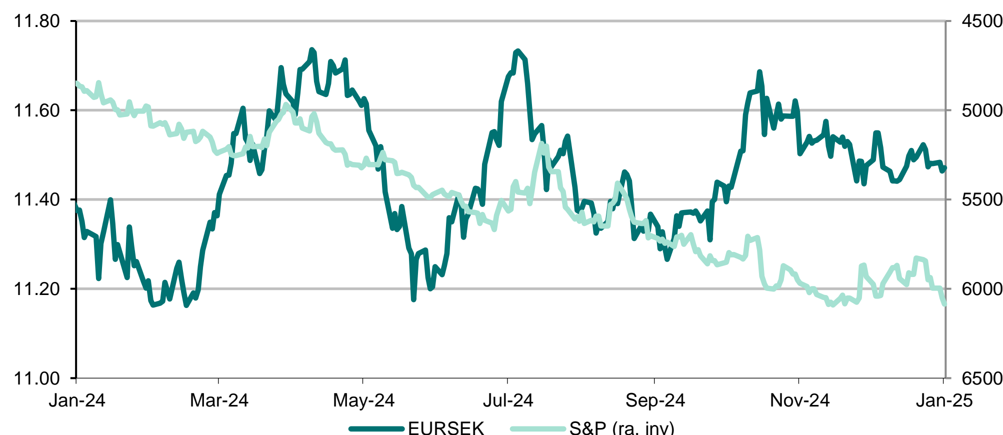


Source: LSEG Datastream, DNB Markets

SEK: Structural headwinds persist

The trend-like depreciation of the SEK since the pandemic has come to a halt, and the trade-weighted SEK has traded in a sideways interval over the past year and a half. Still, the trade-weighted SEK is 3-4% weaker than at the start of last year.

EURSEK and S&P 500



Source: LSEG Datastream, DNB Markets

SEK still vulnerable to geopolitical risks, but rebounding growth will be a cushion

While the SEK performed better than other risk-sensitive currencies during the market turmoil this summer, likely due to the reversal of carry positions which cushioned the impact on the SEK, the SEK weakened during October. In this early phase of the USD-strengthening in Q4 of last year, markets digested the outlook for higher tariffs. With the Swedish economy closely linked to the European, any negative growth-effects should be felt in Sweden as well. While we see a potential for export-growth to slow, we see growth rebounding as consumption improves with higher real disposable income and as low interest rates and geopolitics lift investments. While the SEK still is vulnerable to fresh bouts of market turmoil, an improving activity outlook should gradually start to cushion some of the impact on the SEK.

We expect an interest rate cut to 2.25% by the Riksbank in January to mark the end of the easing cycle. While markets price another interest rate cut by June, the SEK will remain a low-yielding currency, limiting the positive impact from this repricing.

Households' savings remain a structural SEK-negative

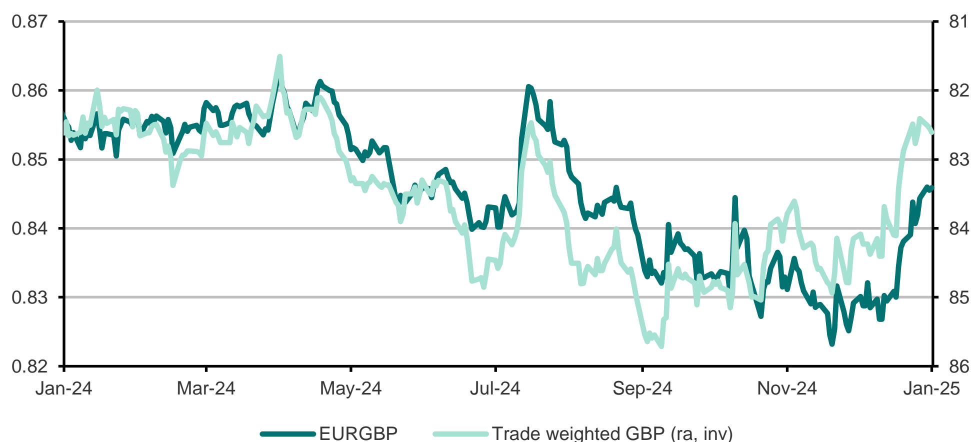
Our structural concerns remain. Household savings have been high, and as some of these savings are invested abroad, this has led to an accumulation of net portfolio assets by Swedish households. With improving real disposable incomes, we should expect the savings ratio to remain elevated, with a negative effect on the SEK.

All in all, we see short-term factors balancing out, while a broad-based strengthening of the EUR and structural factors are likely to weigh on the SEK further out. We therefore expect to see EURSEK trade close to 11.70 in 12 months.

GBP: Solid fundamentals not enough

After trading in a tight side-ways interval early last year, the trade-weighted GBP has been trending stronger. There have been two exceptions to this trend, related to the market turmoil last summer and to rising concerns over government debt sustainability after the turn of the year amid rising GBP yields. This has partly reversed previous strength and left the trade-weighted GBP about 2 percent stronger than at the start of last year.

EURGBP and trade-weighted GBP



Source: LSEG Datastream, DNB Markets

Uncertainty over fiscal leeway could limit the positive impact on GBP from high interest rates

Although Bank of England has embarked on a very gradual easing cycle, the GBP has benefitted from high interest rates compared to peers. We expect to see three additional rate cuts by the Bank of England, which will still leave interest rates higher than in many other countries. However, uncertainty related to the fiscal leeway and the recovery in the euro zone could limit the positive impact on the GBP.

Deficit on current account makes GBP vulnerable to shifts in risk sentiment

Even for the GBP, we have some structural concerns that remain. The UK is still running a deficit on the current account. While this used to be funded by increased foreign direct investments and foreign bond holdings, it now relies more on short-term loans and deposits, making the GBP more vulnerable to shifts in risk sentiment.

Taken together, we see the positive impact from higher growth and a high level of interest rates being balanced out by political and trade/geopolitical uncertainty in the short-term, and for a broad-based EUR-appreciation to lift EURGBP to 0.86 in 12 months.

DNB MARKETS

NORDIC HIGH YIELD

Returns to remain high this year

The Nordic high yield market enjoyed another strong year in 2024, recording both record high returns and historically high new issue volumes. Total returns reached 12.4%, exceeding our 8-10% forecast from a year earlier. In 2025, we expect 7-8% returns, while spreads are expected to be in the 410-460bp range. We anticipate a decline in default rates this year, but with recovery rates likely normalising, the credit loss could increase by 45bp to 1.8%.

Continued strong performance

Record high returns and historically high new issue volumes in Nordic high yield last year, with returns driven by a robust recovery in the real estate sector

The Nordic high yield market enjoyed another strong year in 2024, recording both record high returns and historically high new issue volumes. Even more so than in 2023, the market was supported by elevated base rates. Higher coupon payments attracted significant inflows, enabling issuers to secure funding at record low credit spreads. Elevated volatility in global long-term interest rates had limited impact on the Nordic high yield market, which is characterised by short tenors and floating rate bonds. Total returns reached 12.4%, substantially exceeding our 8-10% forecast from a year earlier. The positive surprise was driven by a robust recovery in the real estate sector, which saw spreads normalising from highly elevated levels, resulting in an impressive 37% return. Other sectors also delivered solid performance, with financials (including debt collection) being the sole underperformer, recording returns below 8%.

With these gains, the Nordic high yield market outperformed the Nordic stock market (as measured by the VINX Index) over a 1–4-year horizon. Over longer periods, however, stock market returns have exceeded high yield returns by 2–3 percentage points annually. Yet, this comparison does not fully account for the excessive short-term volatility typical of stock markets, which contrasts with the relative stability of high yield bonds.

High-yield bonds should remain attractive as volatility is lower than in stock markets

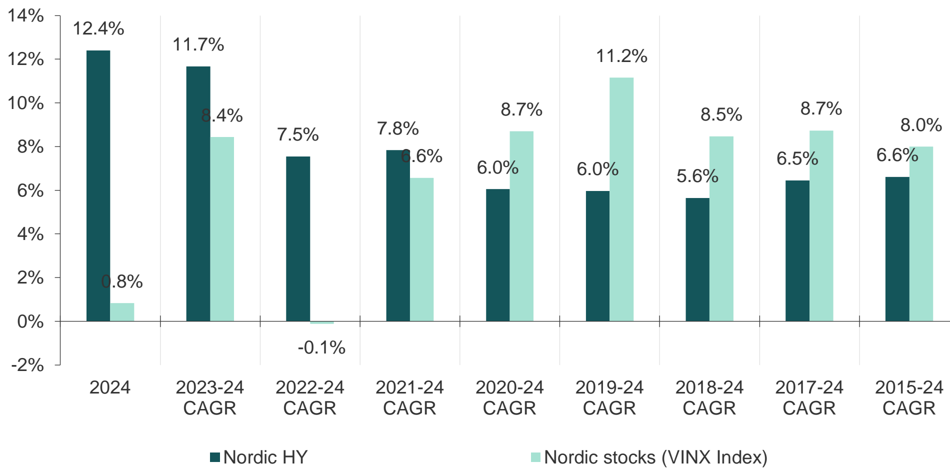
Recent gains in the high yield market have been amplified by rising base rates over the past few years. If interest rates stabilise at moderately higher levels than those seen before 2022, long-term high yield returns are likely to align more closely with the historical performance of the Nordic stock market. With lower volatility compared to equities, high yield bonds should remain an appealing option for investors, even in an environment of compressed risk premiums.

We expect returns of 7-8%, as lower rates and tighter new issue spreads weigh on coupon payments. Credit losses should increase from last year, but remain below historical averages

In 2025, we expect Nordic high yield returns of approximately 7-8%. This anticipated slowdown reflects several factors. Base rates in Sweden have begun to decline, reducing coupon payments on SEK bonds. Additionally, new issue spreads have tightened over the past year, further lowering coupon payments. A slight shift toward riskier issuers in late 2024 has partially reversed the downward pressure on spreads but is expected to contribute to higher credit losses compared to recent years. Finally, we forecast credit losses to reach 1.8% in 2025, 20 basis points below the average since 2009 and 45 basis points higher than in 2024.

Ole Kjennerud
ole.kjennerud@dnb.no
+47 47 75 74 82

Total return comparison, Nordic high yield vs stocks, %



Source: Bloomberg (underlying data), DNB Markets (further calculations)

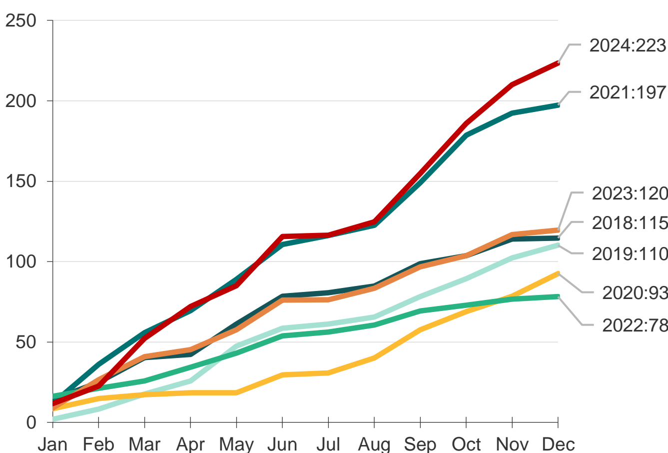
Primary markets

The Nordic high yield market experienced unprecedented issuance activity in 2024, with 178 companies raising capital through 230 bonds. Total issuance volumes reached NOK223bn, NOK26bn higher than the previous record from 2021. The average new issue size also increased, from NOK1.0bn in 2023 to NOK1.1bn in 2024.

Increasing issuance and deal sizes reflects a maturing market

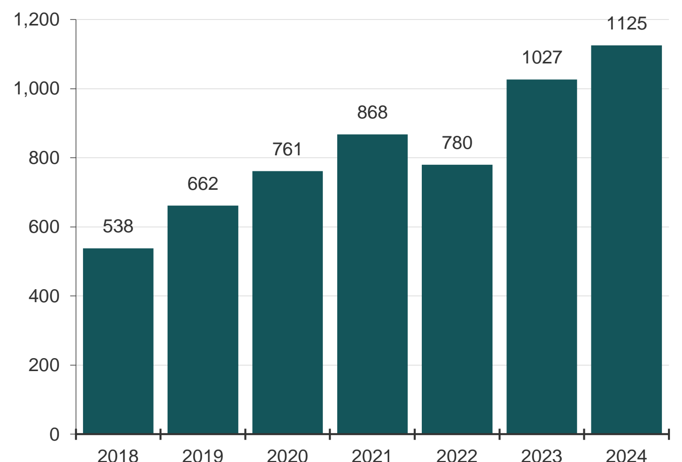
The increase in both aggregate volumes and the average deal size reflects how the Nordic high yield market has matured over the recent years. The Nordic market has become an attractive funding source for companies that in a global context are regarded as small and medium sized. At the same time, the Nordic investor space has grown substantially, with Nordic funds becoming larger, causing their demand to shift more towards larger bonds, at the same time as more global investors are gravitating towards the Nordic bond market. This year, we expect new issue volumes to reach NOK170–200bn, as terms remain highly attractive for issuers.

Nordic high yield: issue volumes by year (cumulative), NOKbn



Source: Bloomberg (underlying data), DNB Markets (further calculations)

Nordic high yield: average size on new issues, NOKm



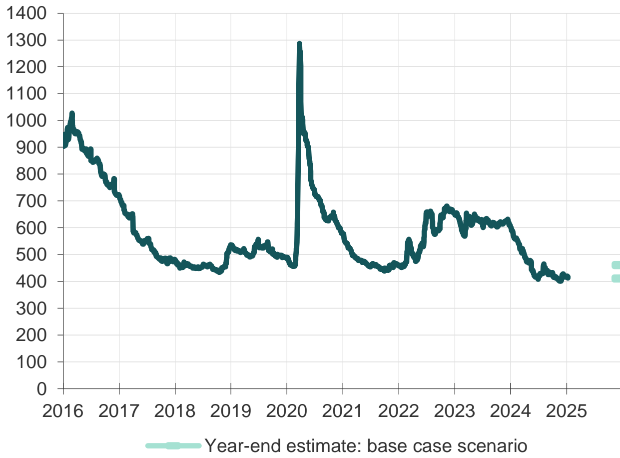
Source: Bloomberg (underlying data), DNB Markets (further calculations)

Pricing and spreads

Credit spreads have tightened through the year, with spreads on new issues reaching all-time lows in 2024. Secondary markets mirror this development closely, with index spreads close to 400bp, also an all-time low. As of year-end 2024, 65% of floating rate bonds were priced above par, while 30% were priced at 95-100% of par. Only 3% of bonds were priced at distress (below

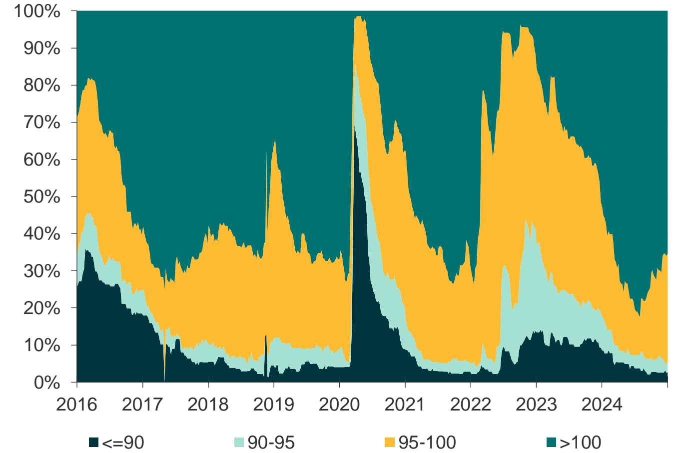
90% of par), suggesting markets are positioned for low credit losses going forward. We anticipate spreads to remain within the 410–460bp range this year.

Nordic high yield: credit spreads, bp



Source: Bloomberg (underlying data), DNB Markets (further calculations)

Nordic high yield: proportion of index constituents priced below at different price levels, %



Source: Bloomberg (underlying data), DNB Markets (further calculations)

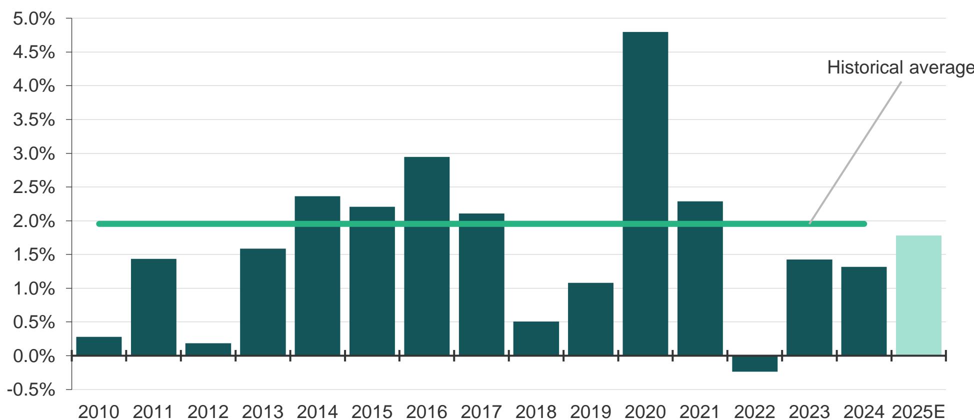
Defaults

Defaults edged higher in 2024, with 58 cases and a total default volume of NOK31bn, resulting in a default rate of 5.3%. This was slightly above our expectation of a default rate just below 5%. Unlike 2023, when real estate companies accounted for more than half of the defaults, last year's defaults were more evenly distributed across sectors. Indicative recovery rates have remained high, as the case usually is when the cause of a default is driven by interest expenses rather than weaker earnings. The average implied recovery rate rose to 75%, up from 63% in 2023 and well above the historical average (49%).

We expect the default rate to decline due to lower interest rates, but not fully normalize

This year, we expect the default rate to decline to 3.5%. The primary driver of this reduction is the anticipated lower interest rates in Sweden. However, persistently weak activity growth in the Nordics and across Europe is likely to create significant headwinds for cyclical companies, particularly within the consumer goods, industrials, and financials sectors. In our view, this will prevent default rates from fully normalising after their recent elevated levels. Moreover, as defaults increasingly stem from weak economic activity rather than high-interest costs, we expect recovery rates to begin normalising from their currently elevated levels. Consequently, we anticipate a slight increase in credit losses, rising from 135bp in 2024 to 180bp in 2025.

Nordic high yield: implied credit loss, %



Source: Stamdata, Bloomberg (underlying data), DNB Markets (further calculations)

DNB MARKETS

NORDIC EQUITIES

Moderate returns ahead

2024 was another strong year for US equities, but Norwegian equities underperformed high yield and Nordic indices underperformed cash. We believe that solid dividend yields combined with moderate EPS growth should see mid-to-high single digit returns for the OSEBX in 2025. We expect similar returns for the Nordic Vinx Cap index.

Rates outlook limits room for multiples expansion

10-year Treasury yields have surprised consensus to the upside for the past four years and we expect 2025 will add a fifth year to this sequence. This follows a period that started in the 1980s where consensus estimates were consistently too high suggesting an element of recency bias that could explain the persistence of these errors. From a fundamental perspective we view current levels for the 10-year yield as broadly “fair” rather than “high” while equity market valuation implies that risk-free rates are temporarily high, in our view. While the increase in yields has not been enough to trigger a repricing of equities, it has kept a lid on valuation multiples, which have essentially moved sideways over the previous 18 months for both the Nordic Vinx Cap and OSEBX indices.

Moderate EPS expected with solid dividend yields

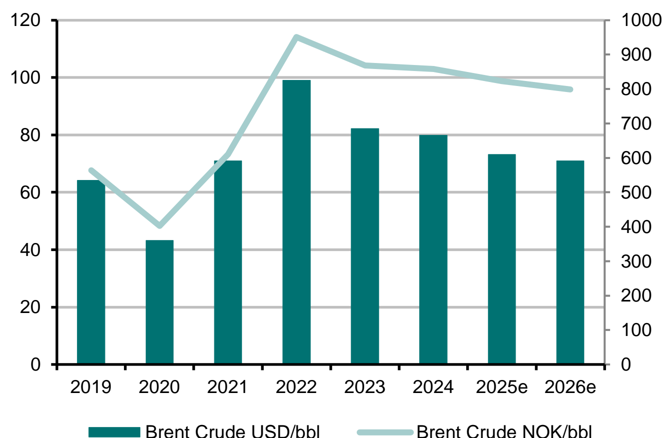
Nordic EPS growth has historically been similar to growth rate of nominal GDP for the Eurozone. With a large contingent of export orientated companies, where the Eurozone is typically the largest market, this is not particularly surprising. While China has historically offered stronger growth opportunities than Europe, we expect demand to slow both due to weaker growth in China, but also declining market share, as Chinese companies migrate up the value chain. Moreover, Chinese companies are increasing their market share in Europe. We have seen this in particular within autos manufacturing and renewable energy infrastructure. With slowing domestic growth in China, we expect efforts to grow exports will only increase. In addition, likely imposition of tariffs in the US could see more Chinese exports diverted to Europe, squeezing the profit margins of European companies.

We also expect modest EPS growth for the OSEBX index, but this is primarily related to the sector exposure of the index. Lower oil prices result in YOY declines in EPS for E&P companies and rate cuts leave earnings for banks broadly flat or slightly lower. With plenty of spare capacity, the balance of risks for oil prices appears to be to downside as supply squeezes can be easily compensated while the risk of OPEC discipline breaking down could push oil prices well below USD50/bbl. Shipping is a bit of a mixed bag with many analysts expecting a rebound in earnings for tankers, but in aggregate, the sector is moving down from a period of peak earnings. These three sectors contribute 63% of consensus 2024 EPS, so the 4% index EPS growth is reached with an expectation of around 20% YOY EPS growth from the rest of the index, which is not particularly conservative in our view.

Paul Harper
paul.harper@dnb.no

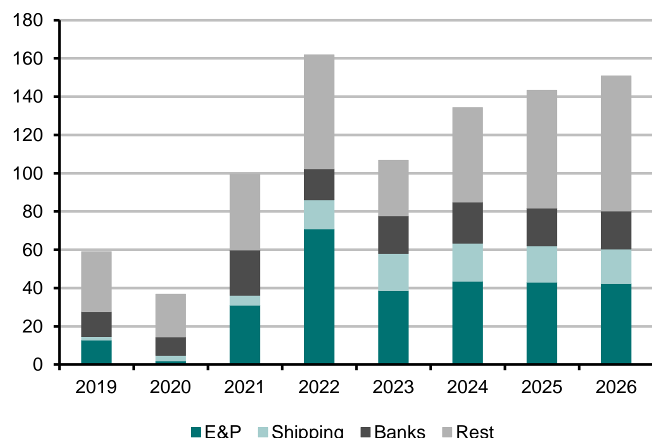
Morten Jensen
morten.jensen@dnb.no

Brent crude and consensus 2025 and 2026 estimates (USD and NOK/bbl)



Source: Bloomberg (underlying data), DNB Markets (further calculations)

Consensus OSEBX EPS (NOK, historical EPS using current index weights)

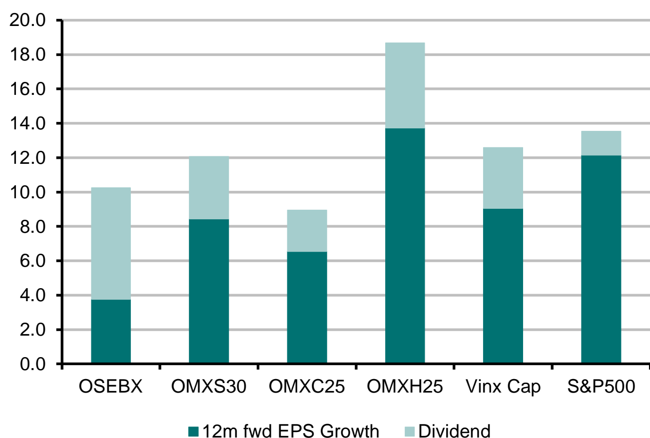


Source: Bloomberg (underlying data), DNB Markets (further calculations)

Index estimates are usually revised down during the year, so even 4% growth is probably optimistic on an underlying basis. NOK weakness (down 12% relative to the USD in 2024) has offset much of the underlying EPS declines for 2025 consensus during the past 12 months. In addition, index reweighting (companies with low or negative EPS were demoted from the index during the year) boosted EPS by around 4% in 2024. On a constant currency basis and using current index weights, 2025 EPS consensus declined by c9% during 2024. Given our view that the US economy will continue to diverge from Europe, we would not be surprised to see a further strengthening of the USD that could offset normal underlying negative EPS revisions.

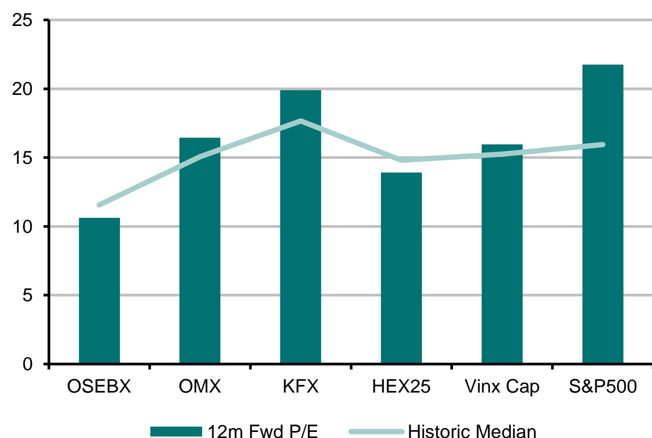
If we combine the consensus dividend yield for 2025 and the consensus increase in 12-month forward EPS during 2025 (i.e. EPS increase from 2025 to 2026) total returns in Oslo (OSEBX) and Copenhagen (OMXC25) should be around 9-10% if we assume no EPS revisions or change in P/E multiples while Swedish (OMXS30), Nordic (Vinx Cap) and US equities (S&P 500) are in the mid-to-low teens.

Consensus change in 12-month forward EPS in 2025 (i.e. 2026e EPS versus 2025e) plus 2025e dividend yield



Source: Bloomberg (underlying data), DNB Markets (further calculations)

12-month forward P/E versus historical median (since 2006)



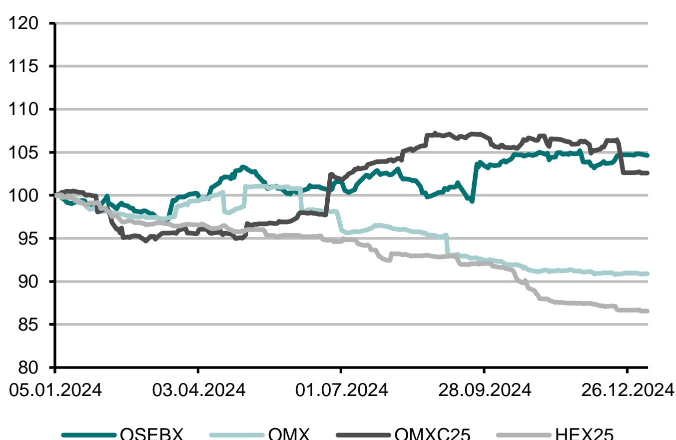
Source: Bloomberg (underlying data), DNB Markets (further calculations)

Finland (OMXH25) potentially looks most attractive in the Nordic universe with strong expected EPS growth and below-average valuation. This follows three successive years of negative returns since 2022. While we only have data going back to 1987, the HEX index in Finland has never recorded four successive years of decline in almost 40 years. However, following the two previous occasions with three successive years of negative returns, the fourth-year returns

were only 6.1% and 4.4% in 1992 and 2004, respectively, so it may be too optimistic to expect an exceptional year.

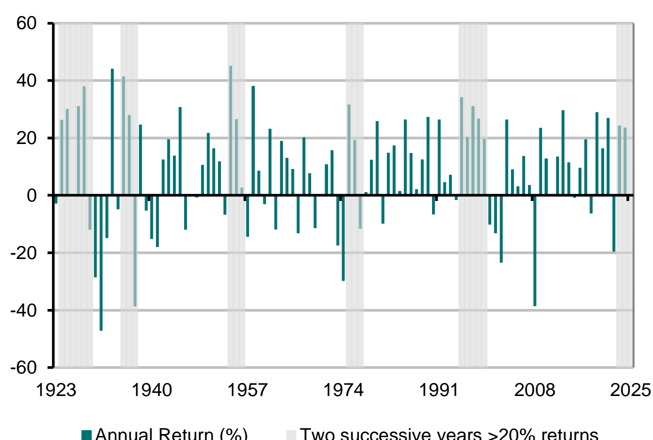
We also note a classic 'red flag' looking at consensus estimate revisions in Finland. The consensus 13% EPS increase from 2025 to 2026 is similar to the negative revisions to 2025 consensus EPS during the past 12 months (consensus 2026 EPS slightly lower than consensus 2025 EPS was 12 months ago). With this very weak earnings revision momentum, we would expect 2026 estimates to be revised lower during 2025. EPS growth driven by cuts to the base year rather than increases to 2026 does not inspire much confidence. Screening for companies that can avoid estimates cuts may not produce a particularly long list of alternatives, but they should be well positioned to outperform as positive earnings revisions are likely to be a scarce factor in 2025.

Nordic indices consensus 2025 EPS (rebased)



Source: Bloomberg (underlying data), DNB Markets (further calculations)

S&P500 annual returns (%)



Source: Bloomberg (underlying data), DNB Markets (further calculations)

Earnings growth expectations also look optimistic for the S&P 500. Consensus forecasts YOY EPS growth of 14% in 2025, followed by 12% in 2026. This compares to historical average EPS growth for the S&P 500 of 6–7%. Consensus revenue growth of 6% looks a touch high although not impossible given consensus estimates of just under 5% nominal GDP growth, but a further large expansion of margins from close to historical peak levels looks optimistic in our view. In addition to optimistic EPS growth assumptions, valuation is also at a 37% premium to the historical median.

Three successive years of strong S&P 500 returns is a very rare occurrence. Two successive years of 20% returns for the S&P 500 has only occurred six times in the last 100 years in addition to 2023–2024. Returns in the third year have been negative or close to zero five times and strongly positive only once, with a run of five years in the late 1990s. There have only been five instances of three successive years with double-digit returns since 1923.

DNB MARKETS

ENERGY MARKETS

Easing pressure on OPEC, while tight LNG market persists

Oil market

We expect easing pressure on OPEC in 2025 relative to earlier expectations. If OPEC maintains its current production cuts, the oil market is likely to stay relatively balanced, but with no room for additional OPEC barrels in 2025–2026. However, potential major new US sanctions on Russian oil trade and Trump's maximum pressure strategy on Iran present upside risks for oil prices, relative to our base case. On the downside, risks stem from OPEC potentially shifting to a volume-focused strategy by increasing production significantly. We have made slight adjustments to our oil price forecasts, now estimating Brent crude at USD 78/bbl for 2025 and USD 77/bbl for 2026.

Global oil demand growth has slowed markedly. Global oil demand growth slowed markedly YOY to 0.9 mb/d from 2.0 mb/d YOY in 2023. We see limited potential for re-acceleration of demand growth in 2025, but Chinese oil demand should move out of the severe softness seen in parts of 2024. Supply growth from sources not restricted by OPEC quotas grew at an all-time high of 3.2 mb/d YOY in 2023. While the pace of output growth has slowed, it remains resilient, with forecasted growth of 1.4 mb/d YOY in 2024, followed by 1.1 mb/d YOY in both 2025 and 2026.

The combination of stagnating oil demand growth and continued strong non-OPEC supply growth means that there is no room for additional OPEC barrels this year and next, and that OPEC must walk away from their ambition of boosting oil supply and instead focus on defending prices.

Sanctions and a new administration led by Trump creates risk for oil supply disruptions. We expect the incoming Trump administration to apply a ‘maximum pressure’ strategy on Iran, with tough sanction enforcement. Our base case includes a loss of 0.5mb/d of Iranian oil production, but we acknowledge the potential for a loss of up to 1.4mb/d.

The outgoing Biden administration announced major new US sanctions targeting Russian oil trade, which creates more uncertainty for oil supply. However, we do not believe president-elect Trump has any ambitions of curbing Russian oil supply. The International Energy Agency pegs OPEC+ spare production capacity at more than 5mb/d. Hence, the oil market has capacity to absorb significant supply disruption without creating substantial price spikes.

Due to increased supply risks and uncertainty surrounding President Trump’s agenda, we now believe the risks are more balanced. Six months ago, we viewed the risks as skewed to the downside relative to our base case. While the market fundamentals remain largely unchanged, the introduction of sanctions has created significant supply risks, leading to a more balanced risk outlook.

Oil price forecasts: Brent M1 (USD per bbl)

	Q1 25	Q2 25	Q3 25	Q4 25	2026
DNB Markets	81	78	77	77	77
Futures	78	76	75	73	72
Bloomberg Consensus	75	75	74	73	71

Source: Bloomberg, DNB Markets

Helge André Martinsen
+47 99 12 49 95
helge.andre.martinsen@dnb.no

Tobias Ingebrigtsen
+47 48 42 58 01
tobias.ingebrigtsen@dnb.no

European gas market

The European gas market is expected to face another challenging year in 2025. Demand destruction has slowed significantly, and pipeline flows from Russia through Ukraine have ceased. This has increased Europe's reliance on LNG to replenish inventories ahead of the next winter. While additional LNG supply is expected, the timing remains uncertain. As a result, we anticipate that global LNG markets will remain tight through 2025 and into 2026. Consequently, the European gas price must stay high this year to attract sufficient LNG volumes over the summer to replenish the gas inventories.

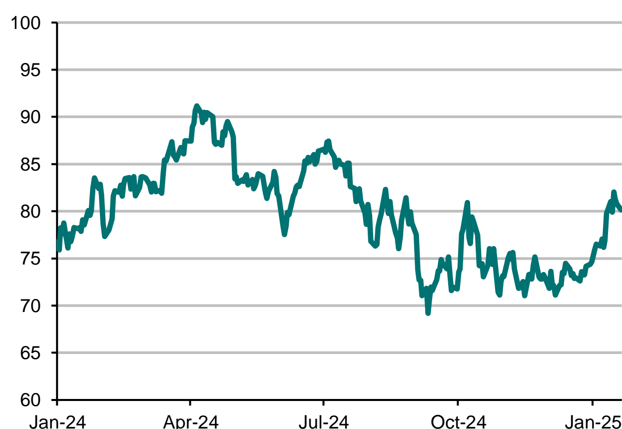
Gas demand in Northwest Europe continued to fall in 2024, but at a much lower rate than the year before. The gas demand in Europe fell by just 1% YOY in 2024, compared to a 9% YOY drop in 2023. The gas demand in the European industry increased 4% YOY in 2024, after being heavily hit by the high gas prices in 2022 and 2023. We believe that the downside potential in the European gas demand is limited this year, with most of the decline expected to be in the power sector which will continue to be pressured by renewables in 2025.

European gas prices fell YOY in 2024 due to low demand and reduced LNG imports, though they remained more than 50% above the 2017–2021 average. Gas inventories in Europe are currently below pre-crisis levels on a seasonal basis, and meeting Northwest Europe's storage target of 90% will therefore require record-high LNG imports. With limited additional supply, this will necessitate gas prices high enough to discourage price-sensitive buyers in emerging markets.

While up to 32.6 mt of additional LNG export capacity will begin ramping up in 2025, this will be insufficient to balance the global market, keeping it tight throughout the year. However, the outlook improves in 2026, with nearly 50 mt of new capacity potentially starting up, which could lead to a more balanced market. Europe's reliance on LNG will reach new heights in 2025 as Russian pipeline flows through Ukraine have ceased, following the end of a transit deal between Ukraine and Russia. The additional loss of Russian gas leaves Europe more dependent on Norwegian pipeline flows, which are limited by infrastructure constraints, and LNG, which remains the only source offering significant flexibility.

It is important to be aware that despite a halt of Russian gas through the Ukrainian corridor, there is still significant infrastructure capacity available to increase the gas flow into Europe, but a ceasefire agreement must be in place. This is the only major source of downside risk to the European gas prices, as increased Russian flows could alleviate the tightness in the global LNG market. However, as the war rages on, there is no additional capacity available for Russian gas to bypass the Ukrainian corridor.

Oil price: Brent M1 (USD per barrel)



Source: Bloomberg, DNB Markets

European gas price: TTF (EUR per MWh)

Source: Bloomberg, DNB Markets

Macroeconomic forecasts Norway

Main economic development. Forecasts 2024–2027

	2023	2023	2024	2025	2026	2027	2028
Demand & production (const.prices)[1]	Bn NOK	Annual changes in per cent					
Private consumption	1964	-0.9	1.0	2.2	2.1	1.8	1.7
Public consumption	1117	3.2	3.4	2.2	1.9	1.6	1.6
Gross fixed capital formation	1117	-0.5	-1.5	2.6	2.3	2.2	2.5
- Petroleum activities	218	10.6	12.7	1.4	-0.5	-2.2	-2.4
- Mainland-Norway	897	-1.4	-5.3	2.4	3.1	3.4	3.7
- Private companies	421	3.4	-4.5	2.3	1.9	1.5	1.3
- Dwelling services	202	-18.3	-18.8	-4.2	7.2	10.9	12.6
- General government	273	7.7	3.6	6.4	2.4	1.8	1.6
Final demand from Mainland-Norway	3978	0.1	0.3	2.3	2.3	2.1	2.1
Total exports	2438	0.2	5.6	2.3	0.4	0.2	0.3
- Crude oil and natural gas	1202	-1.8	7.8	2.6	-0.5	-0.8	-0.8
- Traditional goods	665	5.3	2.6	1.7	1.7	2.0	2.0
Total imports	1655	-1.6	1.5	2.4	2.0	2.0	2.3
- Traditional goods	992	-6.2	1.8	2.3	1.8	1.6	2.0
Gross domestic product (GDP)	5097	0.0	2.2	1.7	1.1	0.9	0.8
- Mainland-Norway, sa.	3874	0.6	0.9	1.5	1.8	1.7	1.6
Labour market							
Employment, 1000 persons	2924	1.3	0.7	0.7	1.1	0.8	0.8
Unemployment ratio, AKU *		3.6	4.0	4.1	4.0	4.0	4.0
Reg. unemployment, per cent *		1.8	2.0	2.2	2.2	2.2	2.2
Prices and wages							
Yearly wages		5.2	5.3	4.4	3.8	3.5	3.5
Consumer price index		5.5	3.1	2.5	2.7	2.7	2.8
Core inflation		6.2	3.7	2.7	2.7	2.6	2.7
Second-hand home prices		0.2	3.0	8.0	8.0	6.5	6.5
Oil Price, ICE Brent, USD/bbl		82	80	78	77	77	77
Memo:							
Households saving ratio		4.0	5.0	6.7	7.6	8.2	8.9

1) Forecasts for seasonally adjusted variables, *Levels.

Source: LSEG Datastream, Statistics Norway, DNB Markets

Interest rate and FX forecasts

	27-Jan-25	1 month	Apr-25	Jul-25	Jan-26
USA: Fed Funds (upper range)	4.50	4.50	4.50	4.50	4.75
EMU: Deposit rate	3.00	2.75	2.50	2.25	2.25
UK: Bank Rate	4.75	4.50	4.50	4.25	4.00
Sw eden: Policy rate	2.50	2.25	2.25	2.25	2.25
Norw ay: Policy rate	4.50	4.50	4.25	4.00	3.75

3 month money market rates

	27-Jan-25	1 month	Apr-25	Jul-25	Jan-26
USA: Term SOFR	4.30	4.35	4.35	4.35	4.70
EZ: Euribor	2.64	2.50	2.35	2.25	2.25
UK: Term SONIA	4.51	4.45	4.30	4.05	4.00
Sw eden: Stibor	2.41	2.35	2.35	2.35	2.35
Norw ay: Nibor	4.59	4.55	4.35	4.10	3.95

10 year swap rates

	27-Jan-25	Apr-25	Jan-26
USD	4.06	4.25	4.75
EUR	2.47	2.50	3.00
GBP	4.30	4.50	5.00
SEK	2.63	2.75	3.00
NOK	3.94	4.25	4.75

FX rates

	27-Jan-25	Apr-25	Jan-26
EURUSD	1.05	1.00	1.06
EURGBP	0.84	0.85	0.86
EURSEK	11.51	11.50	11.70
USDSEK	10.96	11.50	11.04
EURNOK	11.78	11.70	12.00
SEKNOK	102.4	101.7	102.6
USDNOK	11.22	11.70	11.32
GBPNOK	14.03	13.76	13.95
NOK index (I-44)	122.19	122.0	123.5

Source: LSEG Datastream, DNB Markets

DISCLAIMER

The note (the "Note") must be seen as marketing material and not as an investment recommendation within the meaning of Regulation (EU) NO 596/2014 on market abuse (Market Abuse Regulation) and associated rules, implemented in the relevant jurisdiction. The Note has been prepared by DNB Markets, a division of DNB Bank ASA. DNB Bank ASA is a part of the DNB Group. The Note is based on information obtained from public sources that DNB Markets believes to be reliable but which DNB Markets has not independently verified, and DNB Markets makes no guarantee, representation or warranty as to its accuracy or completeness. Any opinions expressed herein reflect DNB Markets' judgement at the time the Note was prepared and are subject to change without notice. The Note should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. No DNB Party is acting as fiduciary or investment advisor in connection with the dissemination of the Note.

The Note is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets. The Note is the property of DNB Markets. DNB Markets retains all intellectual property rights (including, but not limited to, copyright) relating to the Note Sell-side investment firms are not allowed any commercial use (including, but not limited to, reproduction and redistribution) of the Note contents, either partially or in full, without DNB Markets' explicit and prior written consent. However, buy-side investment firms may use the Note when making investment decisions, and may also base investment advice given to clients on the Note. Such use is dependent on the buy-side investment firm citing DNB Markets as the source. The Note shall not be used for any unlawful or unauthorized purposes. The Bank, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (individually, each a "DNB Party"; collectively, "DNB Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Note. DNB Parties are not responsible for any errors or omissions, regardless of the cause, nor for the results obtained from the use of the Note, nor for the security or maintenance of any data input by the user. The Note is provided on an "as is" basis. DNB PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE NOTE'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE NOTE WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall DNB Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Note, even if advised of the possibility of such damages.

Confidentiality rules and internal rules restrict the exchange of information between different parts of the Bank and this may prevent employees of DNB Markets who are preparing the Note from utilizing or being aware of information available in DNB Markets/the Bank that may be relevant to the recipients of the Note. Please contact DNB Markets at 08940 (+47 915 08940) for further information and inquiries regarding this Note. The Note is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. Distribution of material like the Note is in certain jurisdictions restricted by law. Persons in possession of the Note should seek further guidance regarding such restrictions before distributing the Note.

The Note has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway and under supervision by the Norwegian Financial Supervisory Authority, The Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request. Information about DNB Markets can be found at www.dnb.no/markets.

Additional information for clients in Singapore.

The Note has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the Note, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product.
You have received a copy of the Note because you have been classified either as an accredited investor, an expert investor or as an institutional investor, as these terms have been defined under Singapore's Financial Advisers Act (Cap. 110) ("FAA") and/or the Financial Advisers Regulations ("FAR"). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products which are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which he makes recommendations concerning securities, a statement of the nature of any interest which the financial adviser (and any person connected or associated with the financial adviser) might have in the securities.

Please contact the Singapore Branch of DNB Bank ASA at +65 6212 6144 in respect of any matters arising from, or in connection with, the Note.The Note is intended for and is to be circulated only to persons who are classified as an accredited investor, an expert investor or an institutional investor. If you are not an accredited investor, an expert investor or an institutional investor, please contact the Singapore Branch of DNB Bank ASA at +65 6212 6144.

We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the Note by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in the Note.

Additional Information, including for Recipients in the United States:
The Note does not constitute an offer to sell or buy a security and does not include information, opinions, or recommendations with respect to securities of an issuer or an analysis of a security or an issuer.

Head Office

+47 915 04800

Dronning Eufemias gate 30
N-0191 Oslo
Norway

Research Fixed Income, Currencies and Commodities

Macro, Fixed Income and Currencies Research

Kjersti Haugland +47 91 72 37 56
Ulf Andersson +46 733 272 273
Oddmund Berg +47 41 63 81 70
Ingvild Borgen +47 48 11 52 00
Kelly Ke-Shu Chen +47 91 73 40 10
Eirik Larsen +47 91 19 36 00
Knut A. Magnussen +47 47 60 40 46
Magne Østnor +47 90 74 79 02
Kyrre Aamdal +47 90 66 11 12

Energy Market Research
Tobias Ingebrigtsen +47 48 42 58 01
Helge André Martinsen +47 99 12 49 95

Credit Market Research
Ole André Kjennerud +47 47 75 74 82

Equity Market Research
Paul Harper +47 90 29 55 87
Morten Jensen +47 91 58 03 26

dnb.no

DNB MARKETS